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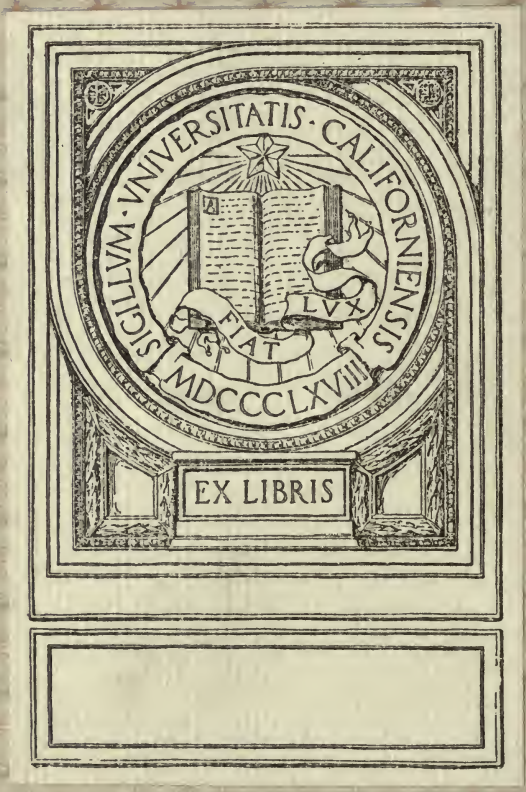
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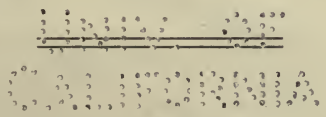
The FEDERAL RESERVE ACT

A Discussion of the Principles and Operations of the new Banking Act as originally published in The Wall Street Journal and the Boston News Bureau

By
C. W. BARRON

Including a Description of the Financial, Commercial and Industrial Characteristics of each of the Federal Reserve Districts and the Federal Reserve Act fully indexed, with pertinent legislation



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INTRODUCTORY.

It is with some misgivings that I have consented to have placed in book form these twenty-eight articles discussing the Federal Reserve Act.

Having studied this measure in the embryo of legislation, the principles operative in its formation and the strength and weakness in the minds of its makers, I deemed it my duty to speak the hopeful word in the financial publications with which I am associated, The Wall Street Journal, the Boston News Bureau and the Philadelphia News Bureau.

I had to work quickly, in such hours of the day as I could command apart from my regular labors, to issue these articles every alternate day, beginning Jan. 9, 1914.

I have been surprised at the favor of their reception. Requests for their publication in book form have come from various parts of the country and from abroad. I was surprised also to learn that they were translated as fast as issued for the use of bankers in Europe. I made my statements boldly, avoiding technical terms, and expected the response at least of criticism and controversy. Now I yield to the demand of many readers to put these notes in more enduring form than the columns of financial newspapers.

It is a pleasure and a duty to acknowledge assistance. First I would thank John Perrin, probably one of the most widely known bankers in the United States and recently appointed Federal Reserve Agent for San Francisco. Together we watched the varying phases of debate at the Capitol, discussed banking principles to the "wee small hours," and rejuvenated ourselves by laughing over many phases of the debates as the bill was being put into shape for final enactment. Perrin knows a bank from the messenger right up through the line to the president's desk, and what is more, he knows all the principles underlying credit and is familiar with every financial theory that ever rooted or bloomed on either side of the Atlantic. He won't say this himself. Indeed, he will probably only recognize the fact and then doubt it when he first reads this in print.

To Charles P. Blinn, Jr., of the National Union Bank, Boston, I am indebted for statistical compilations which, while not appearing

in this book, greatly assisted me to give the proper poise and balance when transmuting dry statistics into popular presentations harmonious in principles and practice.

I am indebted to Luther Conant, Jr., formerly United States Commissioner of Corporations, but in the year 1913-14 on the staff of The Wall Street Journal, for most conscientious reading of manuscript and proofs. To his accurate scrutiny of all phrases, figures and balances is probably due the fact that the controversies I so confidently expected have not arisen.

The articles in the latter part of this book by Dr. John F. Crowell of The Wall Street Journal, and formerly of Washington, speak for themselves. Dr. Crowell's life study has been in the line of statistical presentation, as well as in the principles which underlie facts, and out of which all facts arise.

These twenty-eight essays on the Federal Reserve Act are really *Essays on Credit*. To the oncoming generation of bankers who are to make this country great and prosperous, if not foremost in the world of finance, I would emphasize that banking is essentially nothing but credit and that the true gold in the world is the gold of credit. It has been a popular impression, handed down from ancient times, that banking is putting money in a box or stocking or in the hand of another for safekeeping. This is banking by an Indian, a Hottentot, or an aborigine, ancient or modern.

Real banking is giving and receiving real credit. The essential gold is the gold of honor,—of promises well based on integrity maintained. The money box holds only the needed change for the Saturday night payroll, enough gold for the exchanges of commerce between states and nations where credits have not yet full or effective sway, and also enough gold to insure confidence and ability to maintain that confidence by prompt pay.

Modern banking is very young in the world's history and it will take time for the world to realize that real character and real credit are the true gold—here and hereafter.

C. W. Barron.

Nov. 6, 1914.

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PART I.

COMMENTS ON THE FEDERAL RESERVE ACT.

A NEW AND BROAD CREATION.

Next to the Declaration of Independence and the Constitution of the United States the Federal Reserve Act, signed by President Wilson Dec. 23d, 1913, may be the most important measure ever placed before the people of these United States. Upon its wise administration depends the good or ill of a hundred million people and as a nation we shall probably live under it not only for the 20 years named in the act, but, with amendments found necessary from time to time, for possibly many generations.

The miraculous thing about its creation is that it sprang forth in a few hours before the Christmas holidays from a new Congress that understood little of currency and less of banking and an Executive and a Cabinet that never made any pretence to a clear understanding of financial principles. Yet a Congress of financial experts, with an Administration and a Cabinet composed of the leading bankers of the country, probably could not have produced so good a bill. Bankers are not generally progressive or even open-minded. The line of safety must be their rule of procedure, and all changes they naturally regard with suspicion.

Congress, having no fixed principles, was subject to no prejudices and the bankers, who could never be induced to formulate a bill, unconsciously made one by their negations.

This bill is the re-formation of an absolutely unworkable and chaotic measure passed by the House. It was forced into shape by pressure from the Administration to do something promptly, as the nether millstone, and the determination of the banking interests to quit the national banking system, as the upper millstone, should the act give evidence of being for them dangerous.

Yet the bill in its broad principles is the result of currency expert and banking agitation that has been going on for well nigh a generation; even before the necessity for currency legislation was emphasized by the 1907 panic.

The bill as it passed the House was so highly dangerous as to be undiscussable. Had not the financial papers refrained from criticism, a panic might easily have ensued. Had the House bill passed the Senate and been signed by the President, it might have disrupted the national banking system and caused the sudden retirement of $700,000,000 of national bank currency.

The country has never been informed of the quiet currents of expression that went on last autumn between leading banking interests. The sentiment of the national bankers crystallized in a quiet but unrecorded determination to make no acceptance of the House bill and to avoid the creation of any panic by simply sitting still and leaving it to the Administration, if it so elected, to enforce the act and put the national banks out of existence through receivership. In other words, the banks would not themselves take the responsibility of a foreclosure upon the national banking system, with a contraction of $700,000,000 in the currency afloat, which meant the sudden retirement of 40% of the money in the hands of the people.

This was the quiet sentiment of the national bank interests of the country as understood and privately, yet individually, formulated at the American Bankers' Association Convention in Boston in October.

Our readers will, therefore, now better understand why the financial newspapers have so little discussed the currency measure while it was pending.

The bankers were a unit in their declaration against political control of the credits of the country. They saw the dangers of absolutely free check collections, giving rise to check-kiting from one end of the country to the other; the impossibility of calling up the reserves from the banking interests of the country, as proposed in the House bill, without disaster, and sundry other features of this bill that made it beyond the probability of any volume of money in the country to inaugurate, to say nothing of the amount of credit required to sustain it,—the disaster of contraction to inaugurate it and if inaugurated the wild check-kiting and inflation that must follow.

Now, miracle of miracles, with responsibility to nobody, and yet with credit to everybody, the millstones of banking sentiment and political legislation have ground out a bill that may prove, with wise administration, as much of a marvel as the Declaration of Independence or the Constitution of the United States.

While the bill was under discussion in the Senate it was changed so rapidly that the financial world, except for a few leading experts, lost personal interest in it, and refused to follow the matter in the

news of the day. But now that financiers have had time to read the full text of the conference bill, as signed by the President, it is not saying too much to declare that they are astonished at its breadth and character, the evident sincerity of its purpose, and its freedom from bias, prejudice or experimental notion.

Singular as it may appear, the force, breadth and character of this bill are really due to the pressure put upon Congress to produce a bill before the Christmas holidays. At the last moments of the session the several points in dispute were compromised by throwing them upon the new Federal Reserve Board, yet to be appointed, —just where the power should be lodged.

In fact the new banking bill puts in the hands of the Secretary of the Treasury and the Federal Reserve Board the construction, regulation and government of a reserve banking system to be built out of the reserves of the national banks, gradually removed from the reserve and central reserve cities, and gradually mingled with the moneys of the United States Treasury. These moneys, with the capital subscribed by the national or "member" banks, constitute a basis for the re-discount of commercial paper from the member banks and the issuance in this connection of a new national currency supplementing the present currency yet protected by a 40% gold reserve obtained from the banks and the Treasury; the whole system to be knit together at home and expanded abroad, with power in the Federal Board to expand or contract at will, to officer and manage, and regulate and name the discount rates for the federal reserve banks with possibly more money in their pocketbooks than may be then held by the banks now constituting the national banking system.

In discussing the new bank act the text thereof will be followed and the subjects taken up as in the order of the act, which is in thirty sections, and as printed by the government covers twenty-six and a half ordinary pages.

II

THE UNDERLYING MOTIVE.

The new United States banking law is named the "Federal Reserve Act." According as the Federal Reserve Board thereunder acts it will be a reserve act or an expansion act, the result of which no man can foresee. It is not rhetoric to say that all the nations of the earth are watching that reservoir of one-fifth of the world's gold money which is in the United States and which may readily be tapped off if the federal reserve act becomes a federal inflation act.

The output of gold is not increasing and unless the cost of labor is lowered, or men are turned from the factories and cities, it may not increase for many years. In the past few years interior India has taken 400 million dollars in gold from the civilized world, and not oftener than once in 100 years does either gold, silver or copper flow back from India. In the opening up of the Orient, China may also become a consumer of gold. Even Egypt has pulled upon the world's gold supply. The Balkan war scare in 1913 locked up at least 300 millions of gold in European strong boxes and stockings.

The "motif" underlying the Federal Reserve Act is not that "which is nominated in the bond." "An elastic currency" could have been had by an enactment of 20 lines. The "means of rediscounting commercial paper" are already at hand and such discounts exist to the extent of at least 100 millions in the national banking system. It is not "to establish a more effective supervision of banking in the United States," for that could be accomplished by increasing the appropriation and enlarging the salaries of the examiners so that men with larger experience and breadth of vision would perform more effective supervision.

The purpose of the act most largely in its inception was "for other purposes" and these "purposes" can never be wisely or effectively carried out; if persisted in they spell disaster to the country.

The hidden purpose or "motif" which inaugurated this legislation, however in effect it may work out under wise administration, is to cheapen money.

The whole primary discussion of this bank act was to make money easier, to cheapen it to farmer and producer and manufacturer and merchant. Senators and representatives both proclaimed,

within and without Washington, that what they were seeking was a financial system that would give us an average rate approaching that of the Bank of France where interest over a series of years averages between 3% and 4%. They frankly said they hoped for something under a 4% rate.

The charge was that the centralization of reserves in New York or Wall Street made money for the bankers and gamblers in that "den of iniquity," taxed the country with irregular and high rates of interest and repressed commerce, investment and prosperity.

Therefore, the proposal in outline was that New York should be financially carved up; that the reserves of national banks now centralized in New York should be taken away and between three and four hundred millions of the bank reserves which are now redeposited in that center by the 7500 national banks over the country should be removed to other centers of commerce and industry; and thereupon should be built an elastic banking and currency system, each center serving its own local community, but all interknit, each with the other for mutual support.

Today 7143 national banks, generally classified as country banks, are required to keep 15% of their deposits in reserves, of which 9% may be kept in reserve city banks. These reserve city banks are divided so that three cities, New York, Chicago and St. Louis, are known as "central reserve cities" and the 52 banks therein must keep 25% of deposit liabilities in their own vaults. Outside of these there are 47 "reserve" cities whose 314 national banks must carry 25% of their deposits in reserves, one-half of which may be held in the banks of the three central reserve cities.

This makes a concentration of bank reserves in New York city, which Congress desired to decentralize. Wall Street was not responsible for this centralization. The banks of the country and the national bank act were responsible. The New York banks never originated the system, but, of course, made money out of it. It has been figured that they made one-third of 1% per annum upon these deposits, but this was not their great profit. The profit came to the financial powers in New York who knew the ebb and flow of currency, spring and fall, and changed their investments as betwixt money, bonds or stock, according to the money currents. New York, as a recipient holder of fluctuating bank reserves, was the seat of financial power, and had control of rates and the distribution of credit according as money flowed in or out. When money flowed in after the country's planting or harvesting, New York bankers said who should have it and upon what merchandise, what stocks and bonds, it should be loaned.

Now this is to be changed and Wall Street, and Wall Street bankers, see the rightfulness of the change and welcome it. They will no longer be burdened with this ebb and flow of money and the Stock Exchange and Wall Street will be on a more stable and normal investment and speculative basis. Money will not be unloanable at 2% at one season of the year and vanishing at 12% at another season of the year, with forced fluctuations in stocks and bonds according to the monetary necessities. The money fluctuations are primarily due not to the action of Wall Street or Wall Street banks, for these are only reservoirs, but to the country banks which call their money home and return it at their own pleasure or according to their local crop demands.

To accomplish the re-distribution of reserves it was proposed to have 12 regional reserve banks throughout the country, the Treasury money and a large part of the bank reserve moneys of the country to be removed thereto and there made the basis for commercial re-discount and an elastic currency to be issued by the government through these banks to the national, or member banks, who must be the stockholders in the regional reserve banks, paying in the $100,000,000 capital in gold.

New York and other sections declared for a central bank, or a reduction in the number of reserve banks, as conducive to strength and security. The final compromise was, as in most other features of this bill, left to the new Federal Reserve Board, with headquarters at Washington, to determine the federal reserve districts and place therein not less than eight nor more than 12 federal reserve banks.

As New York City represents about one-quarter of the financial and banking power of the country, including foreign bankers, private bankers, state banks, and national banks, and as New York, with the two or three adjoining states naturally tributary thereto in a financial sense, should constitute about 40% of the banking capital in the regional reserve banks, this city should still be the financial center, for its regional reserve bank cannot be otherwise than the real central bank.

Boston, Chicago and St. Louis should have some strength within their own territory, but outside of these four cities the regional reserve banks will ultimately find their larger function or usefulness in the clearance and collection of checks, although of course in the aggregate they will do a considerable re-discount business. As reserve banks, however, they are too divided to be of any moment or consideration in a crisis.

The crisis, if crisis there ever be, will come about in the effort to attain that for which Congress has endeavored to legislate—cheap money.

III

MOST UNPOPULAR MUST BE ITS TRUE GOVERNORS.

The function of a reserve bank is to hold reserves for future emergency. To hold reserves, the discount rate thereat must be higher than the outside or open market rate. Then when the open market rate advances and the demand closes in on the central reserve, the bank is in control of the situation and in position to supply the demand at rising rates of interest.

On the other hand, if it enters the discount market and competes with other banks and bankers in the loaning of its reserves at low rates, or even normal rates, it makes money easy and borrowing easy and buying easy. Prices rise, making that the best market in the world to sell in and the dearest to buy in, with the result that merchandise flows in while exports fall off, and congestion, both of merchandise and of securities, results. When the inevitable end is reached the relied-upon reserve power has either disappeared or is found wholly inadequate to cope with the situation.

The entire safety of the situation under this bank act is in maintaining "reserve rates" of discount, refusing the popular clamor for easier money or lower rates, and, if discounts must be made, the accumulation of discount reserves in foreign markets where they can be commanded without home disturbance.

If the new Federal Reserve Board is of the desired quality and character it will be the most unpopular board that ever sat in Washington. It will turn deaf ears to all political and sectional considerations. The greater the clamor for cheap money the tighter it will hold the reserves within or without the country. It will keep watchful eye upon every section to see that banking facilities for cornering potatoes in Maine, or cotton in Texas; lumber in Oregon or the Carolinas; corn in Illinois, or wheat in Kansas or Minnesota, are absolutely not furnished by any part of the reserve system over which this board presides. It will be watchful over extravagant imports that may call money from the country and will know the causes for rising and falling prices, so far as they relate to money; and, if within its financial domain, it will lend a hand in checking any extremes or over-extension of credit to any section, or any industry. It will at first frown and then caution; later it will command even to the re-

moval of every director and officer of any federal reserve bank, and their removal under the powers of this Board is absolute and without appeal.

No such power in the world was ever before contemplated as is now concentrated in the as yet unannounced Federal Reserve Board. It is not only the "reserve" banking system in itself, but when rates advance it becomes the most autocratic centralized banking power that was ever dreamed of in history, irrespective of whether the system embraces only the national banks or includes also the state banks and trust companies.

Just two months before this act was signed by the President, or on Oct. 23, Senator Owen, addressing more than one thousand persons at the Boston City Club, where his statements would certainly be conservative rather than radical, said:

> "I am sure that the great bankers of the country will regard with a sigh of relief a condition which will make future panic impossible, and which will give us a stability of interest rates comparable with that of France. I remind you that the interest rate of the Bank of France has been three-fourths of the time right about 3%, and has not gone over 4% for nearly 90% of the time in the last 50 years. These great federal reserve banks can afford to set the standard of lending money to the member banks at 3% and 4%."

The attempt to compete with the Bank of France in low interest rates will with rising prices invite the return of our investments held abroad, for we will be the dearest market in which to buy and the best market in which to sell. We will invite the return to us of 10 billions of American securities held in Europe. France can have a low interest rate for she is a great accumulator of wealth and has no enterprises within her borders to consume her surplus capital. Her wealth must always flow out. It concerns nobody except herself whether her rate is 2% or 4%. England is the creditor of all nations. She has a currency in her bankers' pocketbooks that gives her a greater per capita circulation at home and abroad than any other country in the world. She has $2,500,000,000 of bankers' bills due daily or within a few months, which all read "sterling" or gold. With these she holds the financial keys of empires. The world is her debtor. London's supreme confidence in her own creditor position is well illustrated in the declaration that the Bank of England has only to raise the discount rate and it can draw gold from the moon.

The United States might raise her discount rate and invite gold,

but, unlike England, she could not command it. England's securities are all within her own strong boxes and are the titles to rivers of interest flowing in upon her ledger balances every month. But the United States, rich and powerful as she is above all the nations of the earth, is yet loyal slave to creditor owners, and from Italian immigrant to the strongest railroad corporation, she is working every day to pass gold over to the mother countries.

If the rate of interest is neither too high nor too low, we shall work out in time to financial independence and own all the 135 billions of wealth now within our borders and many billion more.

IV

THE GOVERNMENT UNDERWRITING.

One of the great instruments to our financial independence will be the Federal Reserve Act if rightly administered, because it gives the Federal Reserve Board powers to unshackle commerce and make the freest distribution of credits by the freest transfers and collections when in due time this part of the system shall have been inaugurated. To this end our commercial and manufacturing and distributing interests should welcome the establishment of regional reserve banks and their branches, so that the government may, as in Germany, minimize the expense of financial transfers and collections.

The beginning of this banking system might have been expedited had there not been Washington prejudice against financial "underwriting." Yet the United States government underwrites the new Federal Reserve System. It provides that any stock not taken by national banks, other "member" banks, or the public, shall be taken by the United States Treasury. This is in fact an underwriting by the government, but, of course, political Washington would not harbor such a Wall Street term or thought. Therefore, the act provides that the national banks "and every eligible bank" shall have 60 days from Dec. 23 to accept its terms, and when the federal reserve districts have been marked out, the banks shall be given 30 days in which to subscribe to the capital stock. Right here might come a mix-up. The directors, or officers, may in behalf of the bank accept the act, and the stockholders may decline to subscribe. There is no penalty. The national banks may accept and stay out for a year and then they will be dealt with by the Federal Reserve Board. Indeed they may not accept the provisions of the act at all and yet may be allowed to come in within the year. Suppose the state banks and trust companies elect to come in and fill up enough capital to start the regional reserve banks—$4,000,000 each—and later the national banks elect to come in. There would then be a double subscription of capital, for the state banks and trust companies are about equal in size to the national banks.

STATE BANKS AND NATIONAL BANKS COMPARED.

We compile from the comptroller's report the following figures as of June 4, 1913:

	14,011 State Banks	1515 Trust Cos.	Total
Capital	$483,103,779	$452,386,839	$935,490,618
Surplus	196,271,287	445,285,028	641,556,315
Undivided profits	88,845,027	129,084,210	217,929,237
Loans and discounts	2,746,650,756	2,767,346,174	5,513,996,930
Bonds, securities, etc.	351,496,853	1,191,019,631	1,542,516,484
Cash on hand	246,247,125	285,384,815	531,631,940
Deposits	3,081,011,582	3,571,361,003	6,652,372,585

Annexed as of Oct. 21, 1913, are similar data for the 7509 national banks, placed beside the above total for the state banks and trust companies:

	7509 National Banks	15,516 State Banks and Tr. Cos.
Capital	$1,059,402,908	$935,490,618
Surplus	726,302,377	641,556,315
Undivided profits	281,275,808	217,929,237
Loans and discounts	6,288,338,622	5,513,996,930
Bonds, securities, etc.	1,038,971,129	1,542,516,484
Cash on hand	889,632,454	531,631,940
Deposits (individual)	6,051,689,087	6,652,372,585

There is not enough money for all to come in and pay in the capital and reserves demanded without re-discounts of too large volume for "reserve" banks, but, of course, here the Federal Reserve Board has power to discriminate and it is not likely that many more state banks will come in than will take the place of those smaller national banks, which may find it to their interest to go out.

It would, however, have been better finance and better business for the government, instead of acting as underwriter, to have promptly subscribed or set aside the fifty-one million gold which it is contemplated the national banks will pay in this year as 3% upon their capital and surplus in starting the new system. Later they will be called for 3% more. There was at the time of the passage of this act one hundred and one million of free gold in the United States Treasury and the act had only to set aside fifty-one millions in Treasury vaults, subject to the call of the new Federal Reserve Board (to be put in their vaults as soon as they were built), and there would

be no uncertainty as to the inauguration of the new system. It would be started with government capital in gold and then the national banks would first be invited to subscribe; then it would have been in the discretion of the Federal Reserve Board to let in the state banks and lastly the public. With the capital fully taken by others, the Treasury would be free of the stock. It may not be material in the inauguration of the system; but a little reflection here shows how much more direct and efficient are the "underwriting" methods of finance than the "underwriting" methods of the government. In finance a stock issue is underwritten and construction begun by advances against the underwriting even before the public subscriptions are invited.

The government in starting the new federal reserve banks avoids the business system and without so denominating itself becomes the underwriter but does not get the benefit of the prompt determination of the public subscription which underwriting should secure.

At present there is no assurance or positive regulation whence will come the subscribed capital or how far the state banks or the public will participate therein. There is danger if too few national banks come in, and there is danger if too many state banks attempt to come in, and there is still further danger if the public comes in as a subscriber, and later the national banks insist upon coming in; for in the inauguration of this system there is danger ever present in the possible disturbance to capital and credits.

If the national banks alone come in they will pay in their 3%, or fifty-three million; 1% as called; another 1% within three months, and a third 1% within six months.

V

THE SECOND DANGER IN THE LAW.

As originally proposed the new federal banks were to have a capital of 10% on the entire national banking capital, or $100,000,000. This is now to be accomplished by calling for a similar amount, but as 6% on the national banking capital and surplus.

Here there is uncertainty. If the national banks like the situation and want more of the 6% cumulative stock of their regional banks they may to a considerable extent write from their $300,000,000 of undivided profits into their surplus account; or, if they do not like the situation, they may write off a considerable part of their surplus. It makes no difference with their earning power, but reduces their liability on stock subscription account.

If all the national banks and trust companies and state banks should come in there might be $200,000,000 capital subscribed and paid in on the basis of 6% of their capital and surplus and this would be further liable, as are national bank shares, to a 100% assessment.

But as before explained there is not money enough in the country to permit all the national banks, state banks and trust companies to come in as shareholders and make deposit to the extent required by the act.

Few persons realize that one of the great dangers in contraction and expansion is a fixed reserve requirement making for inelasticity. Among the wisest provisions of the act are those for suspension (under regulation) of the reserve requirements.

While under section 2 no federal reserve bank shall commence business with a subscribed capital of less than $4,000,000, what is there in the act to prevent the starting of a $4,000,000 reserve bank and the immediate withdrawal and reduction of the share capital by the member banks? For instance, after the $4,000,000 capital has been subscribed, if the outlook is not encouraging, member banks may immediately surrender their stock and take back their payments, thereby and to that extent extinguishing the capital of the bank and the "reserve" bank might be continued as a $1,000,000 bank or a $500,000 bank. Of course, such banks would have to leave the national banking system and go into liquidation.

While the primary danger in this act is inflation, the second

danger is in this loophole for contraction. State banks and trust companies, as well as national banks, would scent trouble in our reserve system possibly ahead of the Federal Reserve Board and if a few leading banks turned in their certificates and took out their capital plus 6% accumulated dividends but "not exceeding the book value," who can say how many banks would follow?

More important than the "reserve" money involved in the share capital account is that of the deposit. A bank withdrawing would naturally first check out its full deposit. This averages about four times as much as the fully paid capital. When called upon to make good its "reserve" deposit, it may respond by passing up its share certificates, for redemption at the pleasure of the Federal Board, and announcing itself as "out," "retired," "metamorphosed," or "in liquidation."

The first requirement as respects reserves of member banks is that they keep money in their own bank and next in the regional reserve bank; but this reserve is mobile and may be checked against.

What would a reserve system, a partnership or an underwriting be good for, where any member or partner could at the first sign of danger take his share and accumulated dividend out of the cash box and quit?

This is the individualism-socialistic character of the bill; you are individually free to do as you please so long as you please and run away with your money when you please. You are individually "it" and above all government compulsion, unless the Federal Board promptly makes rules concerning retiring banks—their shares and "reserve" deposits.

The recent marked tendency the world over towards socialism, or the expansion of general assessment for individual good, is noted in the end of the second section of this act, which appropriates $100,000 out of the Treasury to inaugurate this system; and proposes 6% cumulative dividends to the stockholders but does not assess them to repay this $100,000 cost of establishing the system. Thirty years ago or less this would have been considered the entering wedge to a monstrously socialistic system. Now it passes unnoticed and it is cited here only as an evidence that in the framing of the bill the design is to make a good "easy" banking system for the benefit of all the people at low rates. It is not even proposed to assure the Government anything for the use of its credit, and yet for every gold dollar deposited a Reserve Bank may accommodate depositors with $1.62½ in Government guaranteed paper, in exchange for bank-endorsed commercial bills, and yet some more paper for a trifling fine.

In Washington even the wisest financial advisers—so far as there

were any financial wise ones—said, "Why charge the people, it is their own money?"

These facts are just noted in passing to indicate that the "motif" underlying the bill will be found to be the great danger in its execution—the demand for cheap money.

While the bank bill may be socialistic the labor union seems to have had no part in its enactment. The Federal reserve banks are set up for 20 years unless sooner dissolved by act of Congress, or a franchise become forfeited by violation of law; and the bank "may dismiss at pleasure" its officers or employees. Evidently the legislators recognize the desirability of discipline and safety by giving the bank power to "dismiss at pleasure," although such power is denied to the transportation interests of the country.

It is still apparent that the custody of money must be safeguarded beyond the safety required in travel.

VI

THE FEDERAL AGENT AND HIS RESERVES.

It is presumed that there will be presidents* of Federal Reserve Banks, although that official is not directly mentioned.

In Section 4 it is provided that the bank by its board of directors shall appoint "Such officers and employees as are not otherwise provided for in this Act, define their duties, require bonds of them, etc."

Many bankers have assumed from the reading of the Act and from the fact that the Federal Reserve Agent is under the Act made chairman of the board that that valuable old fogy, otherwise known as the conservative bank president, who arrives late and goes early, and looks wise, is dispensed with in this most progressive new banking act.

Such, however, cannot be the case. The nine directors, only three of whom are nominated by the Government, must run the bank as ordinary banks are run in the national banking system.

A bank here, as elsewhere, must be represented by its president. He is more than ever under this bank act the representative of the board and the bank, for the Federal Reserve Agent is distinctly the representative of the Government and reporting thereto.

The directors must give their orders through the president. The agent, who is chairman of the board, must get his from the Government. The functions at times may conflict. The Reserve Agent, until the Federal Reserve Board at Washington otherwise rules, has nothing more to do with the bank than any other director except to preside over the board as one of the nine directors.

The business of the bank may be conducted for months, if not for years, with little reference to the Federal Reserve Agent.

The moment, however, the bank desires the new currency it takes off its hat to the Federal Reserve Agent and says: "Please," and he answers, "Hand over your collateral to my custody, give me the evidence that it is distinctly re-discounted paper, based upon transactions of commerce."

He must then be provided with a safe or a compartment in the

*They have been designated "governors."

vault and becomes the sole keeper of the commercial notes and custodian of the new government money, passing it in and out so long as the United States Government is in the business of issuing paper through that bank.

When the bank has no notes of the United States Government his function ceases except as chairman, director and a reporter to the Government.

The interesting question may arise in the litigation of the future as to the divided responsibilities of the bank and the reserve agent of the Government as custodian of collateral—commercial notes—and of government paper.

Section 7 relates to division of earnings, and the question has been raised as to whether the shares can earn the 6% cumulative dividends.

This will depend in the first instance upon the amount of paper the banks elect to pass in for re-discount when making their payments on deposit account. The capital must be paid in by gold, but one-half of the deposits may be paid in with commercial paper. If 200 million paper is paid in or re-discounted at a 6% or 5% rate, the banks in the aggregate would have no difficulty in earning 6% on a 100 million capital. But if the re-discount rate should in time be lowered to 4%, it would take 300 millions of re-discounted paper to make 6% dividends and expenses, surplus, etc., estimated at a like amount.

If the system should start with the world's discount rates as in 1913, it ought not to have a lower discount than 6%. When money is easy at 2% and 3% in the markets of the world, the re-discount rate of the reserve banks may safely be lowered, at least in the East, to 4%. But when discount rates throughout the world become still easier, the regional banks, for safety, should still maintain their 4% rate, go out of the home discount market and accumulate reserves to meet the ultimate effect of rising prices and expanded industry which is always stimulated by abnormally low rates either at home or abroad.

The foreign discount market will be as important as the home market, and at times more so.

And the Federal reserve system of this country, if properly administered—administered so as to maintain its credits and gold reserves in equilibrium—will be the balance wheel for the whole world. Its reserves will be accumulated in time of low money rates, and its profits will be made and accumulated in discounting at high money rates when there is universal demand over the world for money. Its safety will then lie not only in the expansion of its note

issue, but in the removal of restraints from the reserves. When money rates are low it should not expect to make the 6% upon its share capital. When money rates are high, or above 5%, it should steadily expand credit at a rising rate of interest and, with that alone as governor, support the wings of reserve, and of power over reserves, of the regional reserve banks and the member banks. To do this effectively the Federal Board must always conserve gold when money rates are low and let that and its new currency and all credit fly freely to the ends of the earth on high and advancing discount rates.

One of the first reductions in reserves that might be made in due time should arise from the reclassification of the banks. At the end of three years all bank reserves are removed from reserve city banks and central reserve city banks. There is no reason for requiring an 18% reserve in the three central reserve cities and 15% in reserve city banks.

Under section 11, paragraph E, power is given the Federal Reserve Board "to reclassify existing reserve and central reserve cities, or to terminate their designation as such." Under this clause the central reserve cities might at first be reclassified as reserve cities, thus reducing their reserve from 18% to 15%, and later the reserve city designation might be abolished, thus reducing all bank reserve requirements to 12%.

Under our new reserve law, city bank reserves are not actually reduced from 25% to 18% and 15%, as would appear by the reading of the bill. Before determining the net deposit against which 25% reserves must be kept, the "due from banks" may be deducted from the "due to banks." Therefore, New York need not hold 25% against all the deposits placed with it by banks; and, on the whole, its 25% reserve requirement means only about 21% against gross deposits. By the new law the redepositing of bank reserves as now practised is in three years abolished, and bank deposits in other "member" banks become individual deposits. Many city banks will find that their reserve requirements are actually increased.

In the last days preceding the passage of the banking bill a leading banker, representing the St. Louis banks, arrived in Washington and cried, "Hold up! You are not reducing our reserve requirements. You are increasing them. St. Louis banks now hold only 17.2% of their gross deposits under the 25% requirements. You are now forcing us up to 18%!" He proposed amendment to the law. But he was too late. The bill was rushed through on the false theory that the country needed immediately the new money that might be created under it, and also with the understanding that it might be soon amended, where amendment was found necessary.

It was pointed out that the national bank act itself has been amended by "57 varieties."

If the 7100 country banks, most of which are well distant from reserve banks, need only a 12% reserve, of which only one-half need be kept in their own vaults, certainly the central reserve city banks, with a re-discount privilege at their Federal reserve bank in the same city, need keep no more in cash. When they need money they have only to step across the way and re-discount their bills or commercial paper and receive credit to bring up their reserve, which have been checked out at the Federal reserve bank, or get Federal reserve currency, if that is needed to meet the payrolls of their customers.

VII

INDEPENDENCE OF THE RESERVE BOARD.

The question is often asked as to wherein the political character of the Federal Reserve Board was essentially changed from the House Bill since a new Administration during its term of office can change the character of the board. An illustration from life insurance may make this clear. Formerly any suicide forfeited his life insurance. Under the modern insurance policy, the man who does not commit suicide within a reasonable time is not regarded as having taken out a policy in fraud or with intention to commit suicide. If he commits the act years afterward, it is due to mental aberration, sickness, or causes not contemplated when he took out the policy. There is a change of state that causes the act, and he can be insured against this just as against any other form of accident or illness.

When a new Administration comes in, it places upon the Federal Reserve Board of seven members a new Secretary of the Treasury and, possibly, a new Comptroller of the Currency and during the first year nominates a new member of the Board. Then for two years the new Administration is in the minority.

If in that time the conservative members of the Board, appointed for ten years, have not been able to educate their new associates to their form or methods of control, it is time for a seasonable change and the Administration may then prevail. But there has been nothing accomplished by haste or hasty radicalism, and four of the nine members during that Administration with their presumably large experience are there to watch and protect. And there are behind them the regional reserve banks with their six out of nine directors elected by member banks and there is also the advisory council created by Section 12, and elected by Federal reserve bank directors, one for each Federal reserve district. They meet at least four times a year in Washington to (1) "confer directly with the Federal Reserve Board on general business conditions;" (2) "to make oral or written representations concerning matters within the jurisdiction of said board"; (3) "to call for information and make recommendations in regard to discount rates, re-discount business, note issues, reserve conditions," etc.

Under these restraining influences it is safe to say that it would take two Administrations to fully change the character of the Board, and if the Board were rightly constituted at first it would, by practical education, convert radicals to conservatives.

The members of the Federal Reserve Board have little to look forward to beyond their ten years of service and the honor of such service. To perform their duty aright they must be unpopular and they are forbidden to enter the banking business, for two years after they retire, by "any office, position, or employment in any member bank."

The danger in the Federal Reserve Board membership is that an unscrupulous Administration might pay its political debts through two terms by the appointment of weak or incompetent men thereto. But this would reflect upon the Administration. The Board's usefulness and influence might then gradually disappear and the conduct and conservation of the banking system remain with the Federal reserve banks, whose directors being appointed by the member banks in that district must for safety take up the duties of conservation so far as the Federal Board dropped them.

Should there arise an issue between the different sections of the country—a weak Federal Reserve board forcing low discount rates, which might be availed of in the newer sections of country—the older reserve sections might immediately conserve their reserve forces through their foreign agencies or establish foreign branches as they may do under this Act, and discount abroad for reserve purposes, and answer to the Federal Reserve Board, when called upon to re-discount for the newer sections, "We are full up and you cannot ask us to pay the legal penalties for drawing upon our reserves. You can transfer your Government money to the weaker banks and be responsible for their security, but you can take your choice between letting us alone or permitting us to withdraw and dissolve the regional reserve bank in our district, after which you may set it up again by any public subscription you may be able to command."

It would seem therefore as though the protection against radicalism, within or without, or from Washington, or from political parties, was fairly complete.

Its completeness is due to the pressure the Administration put upon Congress for prompt passage of some bill before Christmas, and Congress had to throw matters of dispute into the powers of the Federal Reserve Board. To get the banks to come into the system, they gave the control of the regional banks to the member banks, and threw in other safeguards.

The possibilities of expansion, both in note issue and re-dis-

counts, by a possible conspiracy between all the member banks and regional reserve banks and the government at Washington, may be later considered academically.

Such expansion, however, from a practical point of view can be better considered in a year or two, when the regional reserve banks have, as contemplated in the Act, established foreign agencies and branches and entered the discount markets of the world and brought home the instrumentalities of exchange common in Europe, such as international drafts, endorsed bills, acceptances, etc.

The powers of this act are so broad as to put our national banking system into the markets of the world for everything in the way of loaning, or buying, gold and exchange and lending and accepting on pretty much everything from gold to merchandise; but to the member banks is reserved the dealing in, and loaning upon, stocks and bonds. The regional reserve banks must deal with gold and the instruments of exchange which relate to merchandise and commerce. In their vaults must be kept gold, money and commercial bills or acceptances based upon the commerce of the country. This gives great possibility of expansion in the stock and bond market to all member banks and state banks and trust companies and private bankers. Fundamentally, the new bank act relieves Wall Street, not only of a part of its bank reserves, but of its commercial paper, and leaves it with opportunity to grow on a sounder investment basis, and to grow as it never grew before.

VIII

REDUCTION IN BANK RESERVES.

A large portion of the trouble in the American banking system has arisen from a high fixity of reserve without penalty in fines, or any regulated interest rates, when depositors draw their money from bank reserves. Banks under the National Bank Act are forbidden to make new loans the moment there is a deficiency in their reserve requirements but they are permitted to renew existing loans. The moment a bank refuses to discount for its depositors, the withdrawal of reserves by the depositors begins.

All novices in banking fail to understand why deposits disappear when loans are curtailed. They do not realize that deposits arise largely from loans.

The bank president who does not understand that discounts make deposits is very much in the position of the old lady who declared that throughout her life she had never been able to understand why her hens were the most obstinate in the world. Whether she brought up Plymouth Rocks or Rhode Island Reds, when eggs commanded good prices her hens would never lay. When business is booming and money is in demand the conservative bank president is apt to curtail his loans and then wonder why his deposits run low—he finds his hens won't lay. Also when a bank strikes its fixed reserve and refuses to loan, away fly the deposits.

What fixity of reserve means may be illustrated from the fact that with $3,400,000,000 money as at present in the country a general requirement of 25% for state and national banking reserve would absorb all the money in the country when the deposits in the banks reached four times this sum, or $13,600,000,000.

Individual deposits in national and state banks last June were just about $12,700,000,000. Fortunately, however, the cash reserves in the state banks and trust companies were only $532,000,000, against $890,000,000 in the national banks. The deposits of the state banks (including trust companies) were the larger by 10%, yet their cash reserves were $360,000,000 less. Had the state banks attempted to carry cash reserves equal to the national banks, we should have been in financial trouble.

In December, 1913, the country was bumping along with little

margin in its banking reserves and business by no means at the maximum. Had the reserves with state and national banks been universally at 25%, the people could have held in their pockets (on the basis of their bank deposits) less than $2 per capita.

The 7500 national banks in the country carry about $900,000,000 cash, which, applied to the individual deposits of $6,000,000,000, makes a cash reserve of just about 15%.

These figures do not include credits between banks. The banking system is here treated as a unit in respect to what it owes individual depositors and what it holds in cash to meet the individual depositors' liability.

Altogether, the state and national banks hold steadily month in and month out about $1,400,000,000 in money, which is 44% of the money the Treasury Department, by its figures, declares monthly to be "in circulation."

With the money in savings and private banks this 44% may sometimes approach 50%, or one-half the money of the country.

Any encroachment upon this half of our money is viewed with alarm, and any serious dip into it creates such a panic as causes people to use the lever of $12,700,000,000 of deposits to get their part of the $1,400,000,000 of money remaining in the banks as reserves. Including savings and private banks the total of individual deposit is easily about 17 billions.

Some bankers have declared that any fixity of reserve is a danger and that there should be no such fixity. They maintain that any bank reserves should be according to the necessities of the situation; that while some bankers might very properly conduct their business year in and year out with no more than 5% of their deposits in their cashdrawer, other bankers according to the character of the demands upon them might well require nearer 50%, and that fixity of reserve creates alarm instead of confidence.

Reverting to the above figures it may be noted that the national banks and state banks combined hold only 11% of their deposits in cash reserve. It may well be doubted if this percentage of reserve ever varies materially in normal times. Reinforced by United States Treasury moneys and other reserve moneys properly centralized it may well be reduced as is contemplated in the Reserve Act.

Recent computations have been made indicating that the gigantic banking business of Great Britain is carried on with less than 7% of reserve moneys,—6½% is the actual figure. All effort from economic writers and theorists of the whole world to induce England to carry a larger gold reserve has been unavailing. In the first ten years of this century England did not increase her gold by so much

as 10% when France was increasing hers by 75%, Germany by 43%, and the United States by 106%.

Of course, the reason you cannot get up a gold scare in England is because her bankers' pocketbooks are filled with international bills payable in gold and her bankers can raise the rate of discount at any time and command gold payment from all corners of the earth.

If the $2,500,000,000 invested in England in international bills was to be transmuted into the medium of bank deposits before its investment in commercial bills and a 25% gold reserve required against it there would be "music in the air."

With our extravagant treasury and banking system and fixed and useless reserves we have had a measure of salvation in this country through the private bankers. It has been estimated that at times a thousand millions of deposits were with the private bankers of New York City, or about as much as was held a few years ago on deposit with New York national banks. State banks likewise held another billion of deposits. Now had the deposits of the state banks and the private bankers been thrust directly into the national banks of New York City and a 25% fixed reserve set up against them there would have been a considerable strain in the financial situation, for the billion in the state banks had less than 15% reserve, and the billion with the private bankers could for the most part be loaned out and nobody question the ability of the private bankers to pay on demand. They could keep 25% of this billion as their reserve and deposit the same in the national banks where the bank's 25% reserve becomes only about 6% of the total of the deposit with the private bankers.

Thus do large deposits of money filter through private banking hands and find a 6% basis of money reserve all-sufficient.

IX

PRIMARY CREDIT EXPANSION.

The greatest fallacy concerning the new bank act is that the primary inflation is to come through the issue of the new notes or even through the regional reserve banks.

Startling as it may appear, the inflation is with the member banks, or in the national banking system.

When a regional reserve bank under control of the Federal Reserve Board is required to keep a 35% reserve against deposits and an additional 40% in gold against its note issues, inflation may be broad but is neither primary nor necessarily sudden. When a dollar is deposited by a member bank (and the new banks do business with no other depositors), that dollar must have 35 cents clipped off and put aside as reserve against the deposit liability. If later this member bank presents its endorsed mercantile paper to the regional reserve bank for re-discount, the amount of the re-discount passes to the credit of the member bank and again 35% in lawful money must be set aside in the reserve account against this deposit liability.

Soon the member bank's currency runs low and the date approaches for the member bank to furnish a large manufacturer-depositor with his weekly or monthly payroll. The member bank thereupon goes to the reserve bank and takes out bills against the manufacturer's endorsed paper which it had recently re-discounted or any other re-discounted commercial paper. Against such bills the Federal reserve bank must hold 40 cents in gold for each dollar in paper put out and the Federal Reserve Agent must hold in custody the commercial note that is behind it.

Therefore, in effect the reserve bank has an endorsed mercantile promise to pay a dollar, has 40 cents in gold, 35 cents in lawful money and a 25 cents surplus to balance a deposit liability of a dollar and a federal note liability of a dollar. It may readily be seen that the 25-cent surplus for the next expansion may not at first carry very far.

The expansion in the aggregate may be treated later and there are ways in which it can be made very large. These figures are only to show the small primary expansion with the reserve notes, dis-

counts and deposits, as compared with member bank possibilities under reduced reserves.

Now, if national banks can carry six billions of loans upon 900 millions of real money the reserves are 15%, as previously noted, and individual credit expansion is as six to one.

Reduce the reserve requirements as in the Federal Reserve Act by 7% on the $1,500,000,000 in Central Reserve City banks, and by 10% on the $1,900,000,000 in Reserve City banks, and by 3% on the $3,700,000,000 in the Country Banks, and we have reduced the reserve requirements on $7,200,000,000 "net" bank deposits by 6⅔%, or $405,000,000.

This reduction of $405,000,000 in reserve requirements cannot be applied in reduction of the $900,000,000 present cash in the national bank system, because a part of the reduction is in the credit reserves and a part in the cash reserves and, furthermore, the reduction in reserves is figured not only on the $6,000,000,000 individual deposits, but the entire net deposits of $7,200,000,000 which include $1,200,000,000 net deposits of banks with other banks. This matter of "net" deposits is a little technical for the lay reader and may be dismissed from present consideration for present purposes. It is expected to undergo a considerable change in the next five years and if the Federal Reserve Act works smoothly, be largely eliminated, bank reserves which are now carried in central reserve and reserve city banks being largely transferred to the new reserve banks.

The purpose here is to treat the 7500 national banks as a unit and deal with their deposit and cash accounts as though they were consolidated into one bank with credits between the banks eliminated, in order to ascertain the reduction in cash reserves permitted under the new act, and their relations to the individual deposits. Cash and individual deposits are the center and the rim of the entire national banking system. This calculation also is based upon the assumption that there is no material change at first in credit relations between national banks and that the country banks maintain deposits with the city banks at first about as at present.

Immediately the announcement is made of the establishment of regional reserve banks there is a reduction of 7% in the reserve requirements of the central reserve city banks holding $1,500,000,000 in deposits. This makes a drop of $105,000,000 in the reserve requirements of banks in New York, Chicago and St. Louis. With no offsets it would be about the equivalent of the sudden arrival of $100,000,000 gold from Europe, which Wall Street would instantly figure as good for $500,000,000 of additional credit spread over the country. There is also a reduction of 10% reserve requirement in the $1,900,-

000,000 deposits in the reserve city banks. The banks in the 47 reserve cities, Boston, Philadelphia, etc., keep one-half their 25% in cash, and the other half is redeposited in the central reserve cities. Therefore, the reduction here from 25% to 15%, of which 6% must be in their vaults, means only a 6½% reduction in the cash reserve requirements, or just a drop of $120,000,000, making possible, Wall Street sharks would figure, another credit expansion, and to the extent of $600,000,000.

The country bank reserves are reduced from 15% to 12% but here there is a reduction of only 1% in the cash requirements at first and another 1% reduction in the cash requirements at the end of three years. Country banks are now required to keep 6% in cash and may keep 9% with city banks but under the new act their cash requirements are reduced at first from 6% to 5% and at the end of 36 months to 4%.

The 1% drop here means at first a reduction in reserve requirements of $37,000,000, or by 1% on $3,700,000,000.

The total reduction in the cash requirements of all banks immediately on the inauguration of the reserve system is, therefore, above $260,000,000, and this may be taken right off the $900,000,000 real money in the banks. In other words, we could export $260,000,000 of gold and still maintain our $6,000,000,000 of individual loans and deposits. This is what Europe, if not the whole world, is watching with open mouth and tongue moistened for an industrial expansion thereupon. The problem is, will Europe or Wall Street get it? If it remains here it changes the ratio of cash requirements under our national banking system as from one to six to one to nine, making possibly nearly a 50% expansion in our bank credit system. In effect this means an invited expansion of credit with the member banks of between two and three billions.

This is sufficient to last this growing country for some years. The interesting problem is, how quickly will Wall Street, industrial America, or gold-hungry Europe, get this two or three billion of credit expansion.

Much depends upon the wisdom of the federal reserve board. They have power to transmute this possible two billion of expansion into real contraction. An illustration may be had with the country banks who have one-half of the country's deposits, and who are now obliged to keep only 6% in cash and may keep 9% with city banks as reserve credits. Their city bank deposits are to be eliminated in their reserves and if their elimination is ordered by the federal board to be transmuted into cash and held in cash in the regional reserve banks and in their own vaults, there can be very great contraction

by this transmutation of what are now banking credits into cash.

Today against the country banks' $3,700,000,000 net deposits only 6% cash is required. When the act goes into effect 5% is required to be held in their vaults, 2% is paid in to the regional reserve banks, and 5% may be held in either their own vaults, or the regional reserve banks, or with any reserve city banks; but each six months 1% is withdrawn from the reserve credits until the reserve credits are entirely eliminated and put in cash, or with the regional reserve banks. So that 6% now held in cash by the country banks on one-half the bank deposits of the country may be by act of the federal reserve board and the conversion of bank credits into cash made to become 12% cash divided between the country banks and the federal reserve banks if the federal board elects to hold all in cash.

This would mean that the reserve banks and the country banks held in their vaults $444,000,000 cash, or 12% in cash, where now there is 6% in cash and 9% in reserve credits with other banks.

With the reserve city banks, while their reserves are nominally reduced from 25% to 15% and the 25% made only half cash and the other half credit with other banks, it is within the power of the federal board to decree that the entire 15% shall be cash, by holding the cash in its own vaults and eliminating all credits from reserves either held by itself or central reserve cities. In other words, while one-half of the 25% reserve was cash, it is possible for the federal board to make the entire new 15% all cash.

It must be added right here that these reduced reserve requirements take no account of the $400,000,000 reserve transferred to the Federal Reserve Banks during the next three years, or the $107,000,000 paid in for its capital account. Both these requirements may in the next few years be met from the member banks' investments which on Oct. 21 last were $1,038,971,129.

We will not attempt to teach our grandmother bank presidents how to suck eggs. They will, before three years are out, see the wisdom of parting with their investments on rising markets and they will see the wisdom of putting the funds thus realized into expanding loans; for loans make deposits and both are profitable in periods of rising prices.

It is figured that a dollar imported from abroad and placed in the banking system now causes an expansion spread over the system of five or six for one, as is shown by the above figuring.

What will now be the expansive power of a dollar placed in the national banking system when the reserve requirements are reduced from the proportion of one to six to one to nine? Will it mean a

possibility of two billion of credit expansion with the member banks before the reserve banks are resorted to for their possibilities of expansion?

The railroads will have no credit for their stocks and bonds with the new Federal reserve banks. They are expressly barred in the bill.

But the unlisted industrial that desires under our new tariff bill to manufacture for Chinese markets has only to borrow and make deposits and there will be credit expansion enough to assist in the commercial regeneration and elevation of the Orientals. We may yet sell rails and locomotives to China, if not to American railroads.

X

POLITICAL PRINCIPLES.

One must understand the political principles underlying the Federal Reserve Act before one can hold a clear conception of its aims or the ends to be attained.

It is quite another matter as to how wide of the mark aimed at will be the resultant working out of the Act in practice.

The world is moving forward in all forms of human development, materially and financially as well as mentally and socially, and at a pace never dreamed of a hundred years ago.

Only within a few years has the eye become accustomed to the electric light, or the blazing, fluttering electric candle been so subdued that the human eye could become accustomed to it. Thousands of people object to placing a telephone to their ears. The trolley train is still a marvel to grandmother and grandfather when they drive to town. Automobiles are denounced by financiers who regard human progress as possible only by human savings, and envious boys still throw stones at them upon some highways.

Dime novels with Indian scouts and scalpers are no longer interesting. Yellow journals and magazines, after political scalps, are more thrilling for the growing youth. Jules Verne is no longer a wonder when Zeppelin, Grahame-White and Orville Wright are actually building and rebuilding in sharpest rivalry to determine which of the three great nations of the earth shall first make over-the-ocean by air transportation a reality.

Financiers often forget that the whole body of humanity is moving mentally and socially quite as rapidly as material things are moving within the domain of finance. You must take a broad sweep to see what is really under the Federal Reserve Act politically, for, after all, political movements are but the reflex of human social movements and the endeavor to embody in law the aims of human progress.

All human growth is by mental contact. This is narrowed in the youth of humanity. The family relation is developed and defended. The tribal relation broadens and defends. Next comes the state with its army, and the city with its walled defences. Thence spring nations with navy and tariff walls. And within

family, and tribe, and state, and nation, is the centralized financial power—all for purposes of protection, defence, and individual upbuilding—by concentration.

Now in this new age of the world comes the demand for human unity. Neither the Turk, the Bulgarian, nor the Mexican can any longer remain isolated in the human family. Every nation has an interest in the development, progress and trade relations of every other nation. Civilized nations are acting together. Indeed, civilization itself seems moving as a unit throughout the world.

Just so fast as this unit of humanity in civilization unites and solidifies, it is an irresistible power making for the decentralization of the older forces. No family is big enough, whether of kings and queens on thrones, or interlocked finance, or unions of trades or of labor, to now consider itself socially isolated and able to legislate and rule independently within its own borders.

Where formerly the word was "centralization," today the rule and the law is "decentralization." "Shippers, choppers and ploughmen shall constitute a state." Tariff walls are beaten into treaties of reciprocity and commercial unions. If Canada would not have a reciprocity treaty, we commercially annex her by taking down our tariff and making her prices our prices, for lumber, cattle and food products.

The Federal Reserve Act is an act of decentralization. It seeks the establishment of other financial centers co-ordinated through a Federal Reserve Board at Washington. Finance and banks are for the people and human development. The people do not exist for the banks, or for potential and highly centralized finance.

The financial powers that still contest for the old system of banking concentration will soon find themselves lonesome relics of a bygone age. The new age is upon us, and he who would now argue for a strong central bank for the fifty nations or states within our Union will be found to be of the church or faith that holds that trolleys should be annexed to steam railroads, automobiles should not be cheapened for popular consumption, immigration and the voting franchise should be sharply restricted, that education is too universal, that too many people travel at home and abroad and that crowds do not belong in their church or their street. Nevertheless, the new age is upon us. It is the universal age; it is the age of humanity; it is the age of decentralization of all powers that the individual unit of humanity may enter in.

With this conception we can go forward to a true understanding of the Federal Reserve Act which seeks to promote more banks,

more financial centers, more commerce and more centers of commerce, lower and more stable interest rates, freer interchange of goods, and freer collection in the financial exchanges relating to commerce.

This is why the new Reserve Bank Act if rightly put into operation may be as big as the Constitution of the United States, as was declared in the first of this series of articles.

Under wrong administration, or inauguration it may become like the Articles of Confederation, which in breaking revealed their defects; but their principles budded forth in a new Constitution which, with amendment, has stood for more than a hundred years.

This Federal Reserve Act, although named for 20 years, or its successor with amendment, is designed to stand for at least a hundred years as the promoter of commerce, the well-being of all people and human development through the exchanges of commerce freed as far as possible from the gambling transactions, either of commerce or finance.

It is regrettable that New York has not better comprehended the purposes of the new Federal Reserve Act. Before Secretaries McAdoo and Houston as the preliminary organization committee, New York argued for the annexation of other commercial and financial centers that a strong bank might be here set up. New York argued over a dead issue.

The whole purpose of the Act is decentralization with centralized direction. New York will be better off before the whole world, and Wall Street—that longest street in the world—will be longer and straighter when the national bank reserves of this country have been decentralized from Wall Street and Federal control over bank reserves set up.

This decentralization with reduction in reserve requirements gives such vast powers of expansion that the reader should study carefully the figures of the previous article before attempting to grapple with the tables to follow.

XI

EXPANSION AND CONTRACTION.

A clever millionaire, who has his millions sometimes in cash and sometimes in securities, was asked if he had read the ninth article of this series on the Federal Reserve Act. "Not yet," he replied.

He was asked if he had read the Bank Act. He replied laconically, "No."

"Why, how can you handle your property and not know the law in relation to which it must exist for many—"

"Tut, tut, I have no time to read. Does not the law say 'elastic'? That is enough for me. How can it be elastic without expansion?"

While the inauguration of the new Federal Reserve banking system presents the possibility of above two billion credit expansion by member banks before the beginning of note expansion by Federal Reserve banks, the first provision of the Act to go into effect is, most singularly, a measure of contraction.

Until the Secretary of the Treasury announces the establishment of Federal reserve banks there is only one change in the existing national banking system and that is that national banks may no longer count in their cash reserves the 5% fund held at Washington for redemption of national bank notes. This is about 35 million on the 700 million bank notes outstanding.

While the Act was under discussion the reserves of the country were very low and it is inconceivable that Congress intended, as preliminary to the inauguration of this new system of expansion, to withdraw 35 millions from the bank reserves and at a possibly crucial time.

The universal proclamation from Washington was reduction of reserves and easing of money. Yet the first provision of the Act put into effect was "from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve."

Either there was no immediate necessity for the new bank act in relief of the money situation, or the proposition for the immediate contraction of 35 million in the reserves was an error.

The intention clearly under the general purpose of the Act

was to withdraw this 5% fund from the reserve when the reserve requirements should be reduced so sharply on the inauguration of the system.

The banks did not realize this provision of the Act until after the turn of the year, and the beginning of the inflow of money to the banks.

In effect it was an added export of gold, but taken universally over the whole country, and brings our money "exports" for 1913 to above $100,000,000.

The only other error in phraseology thus far discovered is that which permits the reserve city banks for three years after inauguration of the Act to keep their optional reserves with each other.*

This clause which permits country banks to keep their optional reserves for 36 months in their own vaults, or in the Federal Reserve bank, also contains the alternative, "or in national banks in reserve or central reserve cities as now defined by law."

This is eminently proper, as country banks are now permitted to keep reserves in both reserve and central reserve cities, but the same phraseology is repeated in regard to banks in reserve cities, obviously an oversight unless it was designed as a further attack upon New York City and intended to give, for illustration, cities like Albany an opportunity to bid against New York for reserve deposits from Philadelphia and Boston, or vice versa.

Banks of the Boston and Philadelphia class have, disregarding this, three options when their reserve requirements on the inauguration of the system are reduced from 25% to 15%. Six of this 15% must be kept in cash, instead of 12½ of the 25% as at present; 3% must be placed with the Federal Reserve bank; and 6% is optional. It may be held in cash; with the Federal Reserve bank, or in central reserve city banks.

It is not, however, likely that there will be any great shifting of reserves, for at the end of the first year the Federal Reserve bank takes up 1%, in six months thereafter another 1%, and a third 1% at the end of two years. A year later, or at the end of 36 months after the inauguration of the system, the cash requirement is reduced from 6% to 5%, and the amount of optional reserve is increased from 3% to 4%. Thereafter no reserve can be counted except its cash in the bank vaults or with the Federal Reserve bank.

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* Note. This was corrected by amendment Aug. 15, 1914.

XII

CAN STATE BANKS QUIT THE NATIONAL SYSTEM?

There seems to be a general impression that a state bank or trust company which enters the Federal Reserve System can withdraw at will. The act makes no explicit provision for the termination of the membership of any member bank except by liquidation or insolvency. It is true that it is a matter of option with a state bank or trust company whether or not it comes into the system, whereas with a national bank it is a matter of compulsion. But if a state bank or trust company voluntarily comes in, so far as its membership is concerned, it stands on the same basis as a national bank and is subject to the same duties and liabilities.

It is suggested that if a state bank gets tired of its membership in the system, all it is necessary for it to do is to check out its reserve on deposit in the Federal Reserve Bank and turn in its stock for cancellation. There is no authority in the law for cancelling the stock under these circumstances, and if the bank checks out its whole reserve, it then becomes subject to the following provision: "No bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored."

As respects state banks they would appear to have the right to come into the system in two ways: Under section 8 by a vote of 51% of their capital stock and with the approval of the Comptroller of the Currency they may "be converted into a national banking association, with any name approved by the Comptroller of the Currency."

But section 9 permits them to become stockholders in a Federal Reserve Bank and the Federal Reserve Board shall establish by-laws to deal with state banks becoming members and "such bylaws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board." However, provision is made to insure that state banks joining the system are subject in some other respects to similar rules as the national banks, so that unfair competition between them may be prevented.

The Federal Reserve Bank upon notice from the Federal Reserve

Board may suspend a state bank "from further privileges of membership" and it "may restore membership."

It would also seem to be within the power of the Federal Reserve Board in establishing bylaws to make regulations under which the state banks may retire from the system.

Until then any state bank attempting to leave the system by withdrawing its reserves from the Federal Bank might be interested in the end of the sixth paragraph of Section 2, which provides that for violation of the Federal Reserve Act,

> "Every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation."

XIII

THE OLD AND THE NEW RESERVES.

Having shown in Article 9 the possibility of two billion credit expansion in our banking system, beginning in 1914, by the two hundred and sixty million reduction in the reserve requirements, two interesting problems immediately arise: First, as to how soon such an expansion may begin actively, and then through what class of banks the distribution of credit will take place.

The third question as to who will get the benefit of the credit expansion, agriculture, industry or transportation, and how far the results will be divided between capital and labor, may be considered later, for that is the ultimate and not the primary problem.

Bankers who have their nose to the grindstone say, "Why! we cannot start a bank without a year of preparation. It takes study to locate a bank and then it takes a year to build a bank vault, although meanwhile the clerical organization and internal system may be all arranged for." In reply it may be said that the regional reserve banks require no ground floors and until they have taken up the clearing house function they require no new buildings and no large spaces. The business can be done on the second floor and the government already has the machinery to quickly provide the clerical organization. The question of the bank vault may be readily solved by the use of the United States Treasury and its sub-treasury system. There are sub-treasuries in this country in the following cities, besides the Treasury at Washington:

Boston,	Chicago,
New York,	St. Louis,
Baltimore,	New Orleans,
Philadelphia,	Cincinnati.
San Francisco,	

These have the vault accommodations needed at first.

Should Denver or Seattle be selected, their names can be found in this list of United States mints and assay offices:

Mints.	Assay offices.
Philadelphia,	New York.
Denver,	New Orleans,
San Francisco.	Carson, Nev.
	Boise, Idaho,
	Helena, Mont.
	Deadwood, S. D.
	Seattle, Wash.
	Salt Lake City, Utah.

Section 19 of the Federal Reserve Act covering the subject of reserves is the most important section. The question for bankers and financial people to immediately consider is when the second paragraph of Section 19 becomes effective. It reads:

> "When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows":

Immediately follows the reduction of the required bank reserves, and the transfer of part of the reserves to the regional reserve banks. The tremendous changes that take place we show in this little table, which every banker should put in his pocketbook:

RESERVES REQUIRED.

	—Old—		New at start			—New Final—		
Banks	% credit	% cash	Optional	Cash	Federal	Optional	Cash	Federal
Country	9	6	5	5	2	3	4	**5**
City	12½	12½	6	6	3	4	**5**	**6**
C Res City		25	5	6	7	**5**	**6**	**7**

We have printed in full-faced figures the abracadabra acrostic, as these are the important figures all financiers may have occasion to remember for many years. To assist the memory one need only recall that beginning with the country banks which have a final optional reserve of 3% (to be kept either in cash, or with the Federal

Reserve Bank), the reserves run three, four and five per cent. for "optional," "cash" and "Federal" deposits, and likewise three, four and five per cent. for "optional," with the country, reserve and central reserve banks.

The central reserve city banks make their change to the five, six and seven per cent. basis immediately on inauguration of the system. With both the country banks and reserve city banks the Federal requirements rise one per cent. at the end of the first year; one per cent. in the middle of the second year, and one per cent. at the end of the second year. There is no change during the third year, but at the end of the third year the cash reserve, which has been stationary through the three years, drops one per cent. by transfer to the optional column.

It shows how the country banks, which hold half the national bank deposits, and must now maintain 15% in reserves—of which 6% must be in cash and 9% may be credits with other banks in reserve or central reserve cities — must then keep only 12%. Of this, 2% of reserve is set up with the Federal Reserve Bank to be later increased up to 5%. The cash reserve is 5% and the optional reserves, which may consist of credits, are likewise 5%.

The reserve city banks which must now maintain 25% in reserves of which one-half may be credit with banks in central reserve cities, must transfer 3% of their deposits to the Federal banks, and, as an offset for this, their cash and credit reserve requirements are each reduced to 6% at the start; but at the end of two years the Federal reserve has been doubled to 6% and at the end of three years the cash reserve requirement of the bank is reduced to 5% and the optional reserve increased to 4%—but then optional only as between cash at home and in the Federal reserve bank.

The central reserve city banks—New York, Chicago and St. Louis—which now have to maintain 25% in cash, not only against their individual deposits and other bank reserve deposits, but also against the net of the "due to" and "due from" banks where there are no reserve relations, must immediately transfer 7% to the Federal reserve banks, hold 6% in cash, and hold an optional 5% either in cash or with the Federal Reserve Bank.

There is no further change in the relations of these banks of the New York class and they continue as at the start to hold 5, 6, and 7 per cent. as "optional," "cash" and "Federal reserve." At first they will, of course, hold 11% in cash in their own vaults as the Federal banks pay no interest upon reserves, but eventually the 7% with the Federal Bank and the 5% optional reserve, or 12% in all, may become in toto credit with the Federal Reserve Bank and,

through the medium of re-discounts, the new federal notes will ultimately be issued for more than the amount of this reserve. Therefore, the 25% cash reserve requirements with the banks of the three central reserve cities, while being reduced to only 18%, nominally, are actually reduced immediately to 6% cash and in time the other 12% is transmuted from cash reserves into credit reserves.

This table should be studied and memorized. It is the most vital thing in finance not only for 1914, but possibly for many years thereafter; and not only for the United States but for the whole world.

XIV

HOW CONTRACTION MAY BE FORCED.

It will be recalled that Mr. Glass, one of the reputed authors of the currency bill, said in several public addresses, substantially: "What do they want? An eminent Chicago banker denounces the bill as contraction, and just as eminent a New York banker denounces the bill for its inflation. They cannot both be right."

Yet, strange as it may seem, both results are possible. This may be seen by studying the tables below:

First we repeat the acrostic table from Article XIII:

RESERVES REQUIRED.

	—Old—		—New at start—			—New Final—		
Banks	% credit	% cash	Optional	Cash	Federal	Optional	Cash	Federal
Country	9	6	5	5	2	3	4	5
City	12½	12½	6	6	3	4	5	6
Cen Res City		25	5	6	7	5	6	7

How the banks stand at the start in actual cash and credit reserves, may next be charted as follows:

NATIONAL BANK CASH AND CREDIT RESERVES.

Statement of Oct. 21, 1913.

(000,000 omitted)

	Banks:	Net deposits	Cash reserves	Cash surplus	Credit reserves	Credit surplus
7143	Country	$3,716	$223	$47	$334	$183
314	Reserve	1,915	239	3	222	*17
52	Central Reserve	1,541	377	*8	...	...
7509	Total	7,172	839	42	556	166

*Deficit.

In this table the required cash reserves are arrived at by applying the percentages of 6, 12½ and 25 for country, reserve city, and central reserve city banks, as given in the first table, to the deposits of Oct. 21. Thus, the cash reserve required of country banks was $223,000,000 and their required credit reserve, assuming that they had no cash surplus, was $334,000,000. As a matter of fact, they had $47,000,000 surplus cash and $183,000,000 surplus credit reserves.

The required cash and credit reserves of the reserve city banks were $239,000,000 each. These banks had $3,000,000 surplus cash, but were deficient $17,000,000 in their credit reserves.

The central reserve city banks were $8,000,000 under their required cash reserve; they, of course, had no credit reserves.

No account is taken of the 5% redemption fund which on the signing of the Act was eliminated from bank reserves. On Oct. 21 these deficits would have been reduced one-half by the 5% reserve fund. The central reserve banks then had in it four million dollars, and the reserve banks eight million dollars. The country banks held the balance, twenty-four millions, in this redemption fund.

The reserves required to sustain the above "net" deposits of seven billions,—which arise, however, from six billions of individual deposits,—are 847 millions in cash and 573 millions in credit with other banks, as will be seen by transferring the starred deficits to the column to the left.

The sum of these requirements is $1,420,000,000. When the new reserves go into effect and also when they are finally in effect this required reserve of $1,420,000,000 drops to $1,008,000,000 on the percentage of reserves as applied to the above deposits.

The question will naturally arise, as it did with Mr. Carter Glass, how anybody could show that the new reserves meant at any time a contraction.

At the outset no contraction can be forced, for the total cash and payments required by the new banking system at the start are less than the 847 millions cash tied up under the present system. This is shown by the table below, which is arrived at by applying to the same deposits used above the percentages given in the acrostic table under the heading, "New at Start":

NEW RESERVE REQUIREMENTS AT THE START.

On same net deposits (000,000 omitted):

	Home cash	Federal cash and cr.	Optional
Country banks	$185	$74	$185
Reserve banks	115	57	115
Central reserve banks	92	108	77
Total	392	239	377

The country banks and reserve banks have four options—cash, in Federal reserve, reserve city or central reserve city banks.

The central reserve banks have option for their 77 millions only between cash at home and deposit with the Federal Reserve.

This table shows that the actual required cash of member banks drops from 847 millions to 392 millions. The total reserves to be paid over to the Federal reserve banks are but 239 millions, and of the optional reserve all but 77 millions (namely, that held by central reserve banks) may be in credits with other reserve city banks. Therefore, at the start, even assuming that the Federal Reserve Bank receives nothing but cash, the total amount of actual cash

holdings which can be forced under the new Act is 392 millions plus 239 millions plus 77 millions, or 708 millions, against 847 millions now tied up. It may be much less. Clearly, therefore, there is no contraction at the commencement of the new system. The possible expansions will be treated in later articles.

After 36 months all optional reserves must be held either in Federal Reserve banks or as cash in vault. Here contraction may be forced.

While there is only 889 million cash in all the national banks of the country, the new Federal Reserve Act calls (on the Oct. 21st basis) for a reserve of $1,008,000,000, all of which may be cash eventually at the will of the Federal Reserve Board.

In other words, while the member bank cash requirements are reduced from 847 millions to 392 millions, it is within the power of the Federal Reserve Board to make the remaining 616 millions ultimately cash, should the Board elect to hold ultimately nothing but cash in the reserve banks.

All this is shown by the table below, arrived at by applying to the same deposits above used the "final" percentages given in the acrostic table:

FINAL RESERVE REQUIREMENTS.

On same net deposits (000,000 omitted):

	Home cash	Federal credit	Optional cash or Federal cr.
Country Banks	$148	$185	$111
Reserve Banks	96	115	76
Central Reserve Banks	92	108	77
Total	336	408	264

Sum of the three reserves $1,008,000,000.

Here then is a possible increase in required cash from $847-000,000 to $1,008,000,000, or by $161,000,000. While it may well be doubted whether any such amount of cash will actually be impounded, nevertheless it is within the power of the Federal reserve banks to bring about such a contraction, should they elect ultimately to hold nothing but cash in their own reserves.

In view of the fact that 108 millions in gold may also in three years be paid in by the member banks to constitute the capital of the reserve banks, it is only theoretical to hold to the possibility of the impounding by the reserve banks of 269 millions in gold and lawful money. The banks and the Federal Board would have to conspire to this end.

However, the possibility of actual contraction under the new system is one which no banker can afford to ignore.

XV

EXPANSION BY MEMBER BANKS.

The opportunity for expansion by member banks because of reduction in the required reserves was pointed out in a previous article. It wll now be shown in detail how this expansion may come about.

It has been generally figured that the country banks and the reserve city banks would draw heavily upon the central reserve city banks for their initial payments in transfer of deposit account to the Federal reserve banks.

This assumption does not seem to be warranted by the figures given in Article XIV, and for convenience reproduced here.

NEW RESERVE REQUIREMENTS AT THE START.

On net deposits of Oct. 21, 1913:

(000,000 omitted.)

	Home cash	Federal cash and cr.	Optional
Country banks	$185	$74	$185
Reserve banks	115	57	115
Central reserve banks	92	108	77
Total	392	239	377

The country banks, therefore, which had cash, October 21, of 270 millions can pay in their 74 million dollars in cash into the Federal reserve banks and still have 11 millions surplus cash at home. Should they desire, however (and considering the number of banks they should certainly desire), to keep about the same excess cash they had Oct. 21, or $47,000,000, they have only to use in making payments to the Federal reserve banks 36 millions of their commercial notes.

This shows that the country banks, concerning which so much has been said, can by the use of 36 millions of commercial re-discounts make their initial payments to the Federal banks, have the same surplus cash at home as last October, and then hold 517 millions of credit reserves and credit surplus with other banks to meet the 185 millions optional reserves, leaving a surplus of 332 millions.

Should they elect to make no re-discounts with the Federal banks they could keep the same surplus cash at home and draw

only 36 millions of their 517 millions reserves and surpluses with other banks.

Evidently the country banks do not need to make any primary disturbance in the money market in their initial payments to the reserve banks. Instead, with their large surplus credits, they are in a position to expand loans heavily.

The banks of 47 reserve cities have their cash requirements reduced in the beginning from 239 millions to 115 millions, or by 124 millions. But they are required to pay at the start, to the Federal reserve banks 57 million dollars. This leaves them with 67 millions of surplus cash or 95 millions should they elect, as they may, to pay in re-discounts one-half the required 57 millions to the Federal banks.

In this matter the Federal Board has no choice, for the Reserve Bank is under control of the member banks until there is an application for the new Federal notes. The law reads that the Federal reserve bank "may receive" "one-half of each instalment" in "eligible paper." But the Federal Reserve Board may raise the rate of discount and thereby induce cash payments.

The Federal Board should welcome the paying of half the instalments in commercial bills, for these give the new banks some earnings at the start and later the Federal Board some control over the money market. By raising the rate of discount the Federal Board may drive the makers of maturing paper into the outside discount market.

These reserve city banks may make payments of first instalments as above noted without calling upon their credit reserves whose requirements are reduced from 240 millions to 115 millions, thus giving a basis of 125 millions for some credit expansion.

The banks of the three central reserve cities have their reserve requirements on the basis of the figures of last October reduced from 385 millions to 277 millions, a reduction of 108 million. They have no credits with other banks, nor are they, like the country or reserve city banks, permitted to count any moneys they have with other banks as in any way reserves. All their reserves must therefore be in cash, or with the Federal reserve banks. They may, however, make payment of one-half their 108 millions to the Federal banks in re-discounted paper.

To sum up, therefore, on the initial payments at the inauguration of the new banking system, the cash reserve requirements of 847 millions fall to 392 millions, a drop of 455 millions. But from this latter sum must be deducted 119 millions cash which must be paid into the reserve banks and so much of the other half, 119 millions, as the banks do not elect to offset with commercial paper.

Initially also there should be deducted 77 millions which the central reserve city banks must hold within their own vaults or pay over to the reserve banks.

This makes in cash requirements a net reduction of 259 millions which becomes immediately the basis for credit expansion. It can be still further added to by the central reserve banks passing all their optional 77 millions over to the Federal reserve banks and as fast as checks are drawn against it making good their reserves by re-discounts, the proceeds of which fill up the reserves.

It is provided in the Act that the first reserve obligation of a member is to hold its own cash. It is next provided that it must maintain reserves with the Federal reserve banks. It is also specifically provided that the reserve with the Federal bank is a working reserve and that the entire sum may be used in meeting checks or drafts.

Called upon to make good its deficiency with the Federal bank, the member bank responds by offering paper for re-discount to make its credit reserves. If currency is not wanted the only control the Federal Board has is to raise the rate and thereby permit the member banks to earn with re-discounts the dividends on their own shares.

Suppose, however, all the banks elect at the start to pay in and hold their reserves wholly in cash with no re-discounts. This would amount to 631 millions, to which must be added the 77 millions of the central reserve city banks, which are optional only as between cash and the reserve bank. There is then a net reduction of 139 millions in cash reserve requirements. This permits, eventually, at least one billion of credit expansion before the Federal Bank has taken in a commercial note, or issued a Federal note, or done anything but lock up 239 million dollars.

Of course, these figures take no account of the first 54 millions paid in on capital account which can be taken care of from reduced credit reserves which have now come down to just 300 million for the country and reserve city banks, where before 573 millions were required and 740 millions actually held.

The surplus here of 440 millions in bank credits might release sufficient cash to provide this payment of 54 millions; but if it were taken from the surplus cash reserves of the banks there would still remain 85 millions surplus cash after every obligation to the Federal government had been met in cash. And this 85 millions could be the basis of a 750 million dollar credit expansion at the outset. Before the full payments are made to the reserve banks the re-discount program must be set up and a fair amount of credit expansion permitted.

The expansion that can follow when rising markets, and rising demands for labor and material, have forced the issue of Federal notes to prevent any contraction of the expanded base, must be considered later. Let it be here said that there would appear to be no initial necessity for the issue of any Federal reserve notes.

It can be assumed right from the start that no bank will pay a dollar into the Federal reserve banks beyond its obligations so long as its correspondents will pay anything for the use of money.

Indeed, there will be a tendency on the part of the member banks to "nig" on their reserves with Federal Reserve banks provided the Federal bank pays no interest; for any deficiency in reserve comes about by the checks other people draw upon member banks, without the bank's primary knowledge.

Should the Federal banks some time in the future desire that the member banks keep their reserves full up, the Federal Reserve Board might well pay 2% on surpluses over the legal requirements and charge 2½% or 3% on deficiencies. This would put the laboring oar upon the member banks to keep up their reserves; otherwise the Federal reserve banks will have to be not only bookkeepers but schoolmasters, daily reminding the member banks of their deficiencies.

There is no patriotism in an organized bank until its own existence is in some way jeopardized. And be it ever remembered that the national banks under the new Act will play for their own profit in these reserves for dollars and cents in full confidence that they are released from reserve obligations in the letter of the law. The maintenance of reserves not only for elasticity but for all emergency has been undertaken by the Federal government and its new banking system.

Just as the national banks at present take out circulation when money is least needed because they can get a small profit thereby, so will they pass out all their reserve moneys, to the full limit, competing with each other and lowering the rate of interest until all their moneys are earning "cent per cent."

The government at Washington will ultimately learn, from its own children in the banking field, the result of unrestrained price competition.

XVI

THE NEED FOR EXPANSION.

Before taking up the possibility of future expansion, or inflation, in all its forms, from the new bank act, it is necessary to carefully consider the business of the country in relation to its money and credit requirements.

It must first be noted that the United States has expanded its gold money base more rapidly and to greater proportions than any other nation. We now hold almost one-quarter of the world's gold money and since 1900 have increased our gold base by a larger percentage than any other leading nation. Nevertheless, on the figures now to be presented it would appear that both in 1907 and in 1913 we had reached the limit of credit expansion upon our metallic base.

Here are the figures of the money in the country, both in total sum and per capita of population, also the amount of gold in the country and the amount of money in the banks upon which credit is built up:

MONEY IN UNITED STATES.

(00,000 omitted, except in "per capita.")

June 30	Total money in U. S.	In treas. as assets	Total in banks	Total with people	Per capita	Total in circulation inc. banks	Per capita	Total gold in U. S.
1913	3,720.0	356.3	1,552.3	1,811.4	18.61	3,363.7	34.56	1,868.8
1912	3,648.8	364.3	1,563.8	1,720.7	17.98	3,284.5	34.34	1,818.2
1911	3,555.9	341.9	1,545.5	1,668.5	17.75	3,214.0	34.20	1,753.2
1910	3,419.5	317.2	1,414.6	1,687.7	18.68	3,102.3	34.33	1,636.0
1909	3,406.3	300.1	1,444.3	1,661.9	18.68	3,106.2	34.93	1,642.0
1908	3,378.8	340.8	1,362.9	1,675.1	19.15	3,038.0	34.72	1,618.1
1907	3,115.6	342.6	1,106.5	1,666.5	19.36	2,773.0	32.22	*1,466.4
1906	3,069.9	333.3	1,010.7	1,725.9	20.39	2,736.6	32.32	1,475.7
1905	2,883.1	295.2	987.8	1,600.1	19.22	2,587.9	31.08	1,357.6
1904	2,803.5	284.3	982.9	1,536.3	18.77	2,519.2	30.77	1,327.6
1903	2,684.7	317.0	848.0	1,519.7	18.88	2,367.7	29.42	1,248.7
1902	2,563.2	313.9	837.9	1,411.4	17.90	2,249.3	28.43	1,192.6
1901	2,483.1	307.8	794.9	1,380.4	17.75	2,175.3	27.98	1,124.7

*In 1907 the director of the mint reduced his estimate of stock of gold coin in country by 135 millions.

MONEY IN UNITED STATES.—*Concluded.*

(00,000 omitted, except in "per capita.")

June 30	Total money in U. S.	In treas. as assets	Total in banks	Total with people	Per capita	Total in circulation inc. banks	Per capita	Total gold in U. S.
1900	2,339.7	284.6	749.9	1,305.2	17.11	2,055.1	26.93	1,036.0
1899	2,190.0	286.0	723.2	1,180.8	15.51	1,904.0	25.62	975.4
1898	2,073.5	235.7	687.7	1,150.1	15.43	1,837.8	25.19	863.8
1897	1,906.7	265.7	628.2	1,012.8	13.87	1,641.0	22.92	697.2
1896	1,799.9	293.5	531.8	974.6	13.65	1,506.4	21.44	600.1
1895	1,819.3	217.4	631.1	970.8	13.89	1,601.9	23.24	636.2
1894	1,805.5	144.2	688.9	972.4	14.21	1,661.3	24.56	629.1
1893	1,738.8	142.1	515.9	1,080.8	16.14	1,596.7	24.06	592.1
1892	1,752.2	150.9	586.4	1,014.9	15.50	1,601.3	24.60	664.3

The above table should be carefully studied. It shows that in 20 years our stock of gold has increased threefold, our total stock of money has slightly more than doubled but that our Treasury money has been increased by 130%. Our money in bank has been multiplied threefold, and while the Treasury figures show money in circulation and in bank has increased from $24 to $34 per capita, the real money in the pockets of the people has increased per capita since 1893 by but 15%.

In this entire period there has been an expansion in wages of 15% which took place mostly before 1907. From 1907 to 1911 there was no expansion in wages; the money in bank was increased by 40%. These were the financial indexes of the time as anybody may recall. Many economic and financial deductions can be made from this table, but the present purpose here is only to show their relation to the new bank act and that banking expansion and the growth of the United States has caused "industry" expansion combined with wage and commodity expansion to periodically bump up against the fixity of reserves in the banks.

Reverting to figures of table in Article IV, it will be noted that $6,650,000,000 of deposits and a like amount of loans are sustained in state banks and trust companies with $531,000,000 of money. In the national banking system $6,050,000,000 of individual deposits are sustained by $890,000,000 of money.

The state laws require less reserves and a dollar of money will here sustain $12.00 of credit. But in the national banking system a dollar of money sustains less than $7 in deposits.

The tables below will now show how for a series of years, as

given in the five reports annually on the Comptroller's call, the national banks have been expanding credits.

It should be noted in this connection that Comptroller's calls singularly avoid crucial dates and during the panic of 1907 were omitted. But the tendency in expansion and the bumping up against fixed reserves, as described in previous articles, will be seen mapped out in these tables.

That we had no unpleasant experience in 1913 and no sharp money rates, contracting values and dangerously setting back on the dial plate the wealth of any worker who owed money, was due to the firm hand at Washington and the general desire of banks "to be good" under threat of government inquiry.

Notwithstanding the United States Treasury had $46,477,439 on deposit with national banks Jan. 1, 1913, and $68,348,490 July 1, 1913, Secretary McAdoo steadily increased the deposits of the banks in the South and West during the crop-moving period so that the United States Treasury deposits reached a maximum of $94,-448,245 on Nov. 24.

Below are shown the aggregate counted reserves of national banks for the five reports made during each of the last nine years, divided as to actual cash holdings and counted reserves with agents; and also the percentage of reserve. It will be seen that cash reserves show a falling off about the fall of every year, while there is generally a marked increase at the beginning of each year:

Date	Cash	Counted Res. with Agents	% Res. to Net dep'ts
Jan. 13, 1914	$981,919,420	$553,459,761	21.74
Oct. 21, 1913	889,632,454	548,046,341	20.54
Aug. 9, 1913	899,169,374	535,721,081	20.72
June 4, 1913	913,982,640	543,488,809	20.95
April 4, 1913	887,283,735	552,493,927	20.44
Feb. 4, 1913	933,417,231	552,965,636	20.91
Nov. 26, 1912	859,098,737	536,690,544	20.35
Sept. 4, 1912	895,951,094	536,760,433	20.69
June 14, 1912	945,202,895	525,459,880	21.35
April 18, 1912	931,689,162	524,020,262	21.30
Feb. 20, 1912	950,497,398	522,431,546	21.44
Dec. 5, 1911	862,794,196	507,103,670	21.05
Sept. 1, 1911	895,475,406	498,218,584	21.36
June 7, 1911	946,331,109	498,166,813	22.10
Mar. 7, 1911	908,036,627	493,149,279	21.67
Jan. 7, 1911	836,267,359	471,291,332	21.40

Date	Cash	Counted Res. with Agents	% Res. to Net dep'ts
Nov. 10, 1910	816,070,660	465,101,183	21.18
Sept. 1, 1910	851,685,037	462,907,440	21.57
June 30, 1910	820,772,892	461,230,483	21.22
Mar. 29, 1910	834,895,586	473,070,284	21.21
Jan. 31, 1910	833,078,869	457,955,248	21.47
Nov. 16, 1909	804,860,734	450,918,347	21.31
Sept. 1, 1909	854,091,857	449,509,685	21.67
June 23, 1909	885,915,771	441,332,929	22.37
April 28, 1909	878,557,008	437,115,702	22.38
Feb. 5, 1909	860,116,882	429,013,432	22.36
Nov. 27, 1908	844,759,519	414,180,709	22.32
Sept. 23, 1908	868,424,070	409,020,320	22.97
July 15, 1908	849,018,749	387,701,205	23.19
Mar. 14, 1908	861,326,450	376,073,437	23.94
Feb. 14, 1908	788,395,576	363,368,396	23.47
Dec. 3, 1907	660,784,736	356,520,434	21.31
Aug. 22, 1907	701,623,533	392,429,183	21.33
May 20, 1907	691,591,148	390,147,862	21.22
Mar. 22, 1907	656,220,551	383,195,660	20.74
Jan. 26, 1907	695,503,522	387,375,750	21.53
Nov. 12, 1906	634,550,158	372,481,873	20.80
Sept. 4, 1906	626,012,411	368,628,517	20.70
June 18, 1906	651,233,604	356,949,920	21.44
April 6, 1906	620,494,868	354,816,015	21.03
Jan. 29, 1906	668,303,290	350,712,508	21.82
Nov. 9, 1905	622,092,079	342,154,047	21.17
Aug. 25, 1905	665,553,300	338,448,685	21.69
May 29, 1905	649,265,050	328,021,225	21.68
Mar. 14, 1905	641,153,633	325,098,395	21.54
Jan. 11, 1905	669,971,553	317,085,907	22.82

Practically speaking, the cash held in the banks does not vary very much, year in and year out. There is an increase over a series of years, due in large measure to the production of gold. It has been safe to speak of the actual cash in the national banks as about $900,000,000 the last few years.

Where the national banks have increased their reserve holdings to a more material extent is in credit balances with reserve agents.

In the following table are set forth the individual deposits, the aggregate balances with approved reserve agents, the percentage

of total reserve to "net deposits," and the percentage of actual money held to individual deposits for all the Comptroller's reports since the beginning of 1905:

Date	Individ. dep.	Total cred. bal. with agts.	% of all res. to net dep.	% cash to indiv. dep.
Jan. 13, 1914	$6,072,064,752	$802,786,844	25.19	16.17
Oct. 21, 1913	6,051,689,087	791,671,167	23.94	14.70
Aug. 9, 1913	5,761,338,731	769,213,605	24.01	15.61
June 4, 1913	5,953,461,551	762,176,994	24.02	15.35
April 4, 1913	5,968,787,045	808,364,504	23.99	14.88
Feb. 4, 1913	5,985,432,295	850,478,400	24.99	15.60
Nov. 26, 1912	5,944,561,069	786,190,805	23.89	14.45
Sept. 4, 1912	5,891,670,007	812,152,402	24.57	15.21
June 14, 1912	5,825,461,163	778,908,242	24.94	16.23
April 18, 1912	5,712,051,088	809,939,983	25.39	16.31
Feb. 20, 1912	5,630,559,231	859,562,144	26.24	16.88
Dec. 5, 1911	5,536,042,281	751,993,136	24.72	15.57
Sept. 1, 1911	5,489,995,011	744,614,305	25.05	16.31
June 7, 1911	5,477,991,156	765,686,132	26.10	17.28
Mar. 7, 1911	5,304,624,091	814,270,800	26.52	17.12
Jan. 7, 1911	5,113,221,817	717,463,231	25.33	16.35
Nov. 10, 1910	5,304,788,306	686,468,726	24.75	15.38
Sept. 1, 1910	5,145,658,367	688,715,945	25.19	16.55
June 30, 1910	5,287,216,312	660,352,109	24.44	15.52
Mar. 29, 1910	5,227,851,556	727,762,703	25.24	15.97
Jan. 31, 1910	5,190,835,219	707,434,039	25.52	16.05
Nov. 16, 1909	5,120,442,963	689,513,982	25.26	15.72
Sept. 1, 1909	5,009,893,079	719,351,249	26.05	17.00
June 23, 1909	4,898,576,696	720,198,213	26.96	18.09
April 28, 1909	4,826,060,384	727,012,348	27.20	18.20
Feb. 5, 1909	4,699,682,942	750,597,593	27.82	15.09
Mar. 27, 1908	4,720,284,640	701,705,151	27.30	17.90
Sept. 23, 1908	4,548,135,165	711,948,690	28.29	19.09
July 15, 1908	4,374,551,208	640,387,918	27.81	19.41
May 14, 1908	4,312,656,789	612,969,288	28.41	19.97
Feb. 14, 1908	4,105,814,418	598,536,934	28.14	19.20
Dec. 3, 1907	4,176,873,717	523,828,151	24.72	15.82
Aug. 22, 1907	4,319,035,402	614,496,352	25.56	16.25
May 20, 1907	4,322,880,141	628,784,065	25.79	16.00
Mar. 22, 1907	4,269,511,629	624,972,079	25.45	15.37

Date	Individ. dep.	Total cred. bal. with agts.	% of all res. to net dep.	% of money held to ind. dep.
Jan 26, 1907	.$4,115,650,294	$662,435,487	26.87	16.91
Mar. 12, 1906	..4,289,773,899	605,237,176	25.48	14.80
Sept. 4, 1906	..4,199,938,310	616,147,683	25.72	14.91
June 18, 1906	..4,055,873,636	587,668,626	26.23	13.60
April 6, 1906	..3,978,467,885	588,639,984	25.95	15.60
Jan. 26, 1906	..4,088,420,135	598,697,066	27.00	16.34
Nov. 9, 1905	..3,989,522,834	569,121,818	26.04	16.60
Aug. 25, 1905	..3,820,681,713	605,464,479	27.33	17.42
May 29, 1905	..3,783,658,494	562,495,160	26.76	17.16
Mar. 14, 1905	..3,777,474,006	594,094,119	27.40	16.97
Jan. 11, 1905	..3,612,499,598	542,193,651	27.92	18.55

Percentage of total reserve in this table is the ratio of total credit balances here given, plus total cash given in previous table, plus redemption fund, to total "net deposits" which on Oct. 21 were $7,172,000,000.

It would appear from these tables that there was necessity for a form of relief to the money market other than that of Treasury deposits.

The argument that Treasury money should be deposited in banks, and any emergency in currency and credit left entirely for treatment with the banks, private, state and national, will not hold, politically, under our American system.

If the government has an obligation to stimulate and protect business by protective tariff—and both political parties have agreed to this—also to regulate transportation charges that injustice may not be done, it certainly has an obligation which it cannot delegate to any private or incorporated bank to protect the money rate from stifling commerce, enterprise or industry.

It is just as much a function of government to protect the interchange of commodities among the people by safe and sound financial transportation as it is by any other transportation.

In some years many more men are robbed of their goods by irregular money markets than there are sufferers by fire, flood and larceny.

The world has said that there was no insurance against financial panics. The United States is going to attempt to demonstrate that there is. Let it be remembered in this connection that modern

banking is not yet 50 years old. In each of the three decades preceding 1870 the Bank of England by suspension of the Bank act of 1844 assumed, if it did not exercise, the power to suspend specie payments. Since 1870 all the disgraces in finance have been labeled American.

It took the disgraceful American panic of 1907, upsetting the foundations of the civilized world, to emphasize to America how inadequate and how dangerous was her banking and currency system.

Only a new party in power having everything to gain and nothing to lose would have undertaken the tasks of revision, in one year, of tariff, currency and business laws.

XVII

AN AMERICAN SYSTEM AND NEW DEFINITIONS DEMANDED.

The irresistible expansive power of the United States, both in contact and example, is something with which the whole world has had to reckon now for a hundred years. "Les Americans; they do arreeve," exclaimed Sara Bernhardt. How they arrive, politically, financially or otherwise, they never seem to know or care. But they do get there and they know it. They have grown in that abounding self-confidence that effectively declares that individual faith removes all individual mountains. The Revolutionary Army fought without a constitution, and the colonies failed in their first attempt to make one. When, however, it was seen that the deficiency was in the power to tax, they made a new constitution that needed no tax amendment for more than a hundred years. Taxing incomes had not been dreamed of by our Revolutionary forefathers. Full confidence is growing in the new currency act that if it is found faulty anywhere we may easily amend it.

The deficiency in our banking system was in the extravagance of our fixed reserves, our lack of an outside, or investor's, discount and acceptance market, and thirdly our lack of centralized control over rates and reserves.

When we have sufficiently demonstrated our independence of all foreign financial advices and examples and also our ability to be the most extravagant nation in the world as respects bank reserves and gold hoardings, and panic penalties, we suddenly reform everything altogether.

Under the present bill we are to practically abolish any fixed reserve. All national bank reserves are cut to mere "till money" and may be suspended. The real reserves are set up with the new federal reserve banks to be later transmuted into book credits, for exchange and discount purposes, and to be eventually, as the country expands, covered many times over with the new form of currency. And here again all reserves may be suspended in time of need.

There will be centralized control over some reserves and over reserve rates and discounts. Acceptance markets and branch banks may be set up nationally and internationally. With reduced

cost for check collections and ability to interchange government bonds, government paper and gold, or to purchase the latter, we have started to remedy all our deficiencies in finance at one sweep and have tossed the whole into a Federal reserve board, yet to be named. We have been slow in preparing for the change but in no country in the world could so sweeping a change be so suddenly made and so generally accepted.

We Americans fought without a Constitution but under a Declaration of Independence. We continue to fight under the banner of our independence rather than under the restraints of our Constitution. Under that banner we absorb a million raw recruits a year and carry forward socially and politically just a bit of dare-devil lawlessness that resists the police, cusses the courts, condemns the old way and seeks the new.

We use blood and muscle and vocal power most extravagantly; compete with the beaver in cutting the forests; persist in plowing two acres where one would raise the same crop under proper cultivation, and delight in pocket bill rolls and the jingle of pocket silver and gold.

This is the progressive, arriving American spirit that laughs at schoolmasters, judges, banks, economists and property accumulators; will scatter gold in the street if it elects, or make a minimum wage of $5 per day for office boy and scrub woman, just as a social experiment and in defiance to all precedent.

This is Uncle Sam with high hat and bursting trousers that have to be strapped under his boots to keep them on. He will polish his hat and change his financial suit when he "durn pleases," and when he does he is perfectly willing all the world should take notice. He would not be Uncle Sam if he did not "set the pace" when he starts for a new fashion.

People who think that America is going to have a European financial system may be reckoning without their host.

Those who think there is going to be immediately established an international discount market attracting foreign capital will probably have occasion to revise their plans. The greatest free trade market in the world is within the 48 American empires now called states. The greatest investment discount market in the world could be made right here and an inter-state note market may yet be set up under our new banking system and rival if not surpass any European discount market, before European investors can be attracted into an American bill market.

Europe knows very little of our quick system of communication, our jingling telephones and flashing public press or of our high

beating financial pulses. She is still as timid concerning the size of Brother Jonathan and his ability to "eat up all creation" as she is timorous of the Russian bear that still makes Europe nervous as he drops a hundred millions of reserves here and there over Europe.

XVIII

COMMERCIAL PAPER.

While we are borrowing our terms and formulas in the new Reserve Act from Europe it must be distinctly understood that these can be made applicable only under new rules from the Reserve Board. We have no such bill markets, or acceptance markets, as Europe possesses. Commercial paper by the European and by the older American standards was a note given for goods and so timed that a sale of the goods would meet the note. Acceptances are drafts, sometimes with collateral or bills of lading attached and accepted by the banker for payment 60 or 90 days hence. Such acceptances sell in the market upon the banker's name and credit and millions are invested in Europe in this form of security.

The American higher money rates causing discounts for cash have largely driven out the older forms of commercial paper. A buyer being offered 2% or 3% discount for cash, instead of 60 or 90 days' credit, immediately figures the rate of interest and rushes to his bank, if need be, to get the cash and the advantage of such a high interest rate.

The result is that today in the United States commercial paper is largely bank borrowing upon the name and credit of a single commercial house.

Modern economists are declaring that the American system of commercial borrowings is superior to the European. In Europe it is the name of the banker-merchant, Barings, Kleinwort, etc., that carries the paper and gets the low rate. In this country it is the general credit of the goods themselves and the merchant or manufacturer who is handling them.

It is not yet clear that the European system is to prevail in this country over the American system in this 20th century era.

The Federal Reserve Board must rule that borrowings for merchandise purposes that are good at the member bank must be accepted as commercial paper in re-discount at the Reserve Bank.

The first decision upon this matter may arise when the member banks offer half their instalment payments to the reserve banks in the form of "eligible paper" as noted in Section 19, but "a

described in Section 14 properly endorsed and acceptable to the said reserve bank." Section 14 reads:

> "Any federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for re-discount, with or without the indorsement of a member bank."

This section is the result of agitation now for many years by Mr. Paul M. Warburg, and it covers fully foreign bills of exchange.

"Bankers' acceptances and bills of exchanges" are known abroad, but acceptances and bills of exchange are not known as between bankers of this country.

Right at the start the Act may have to be amended to make the eligible paper for instalment payments that likewise described in Section 13 as "notes, drafts, and bills of exchange, arising out of actual commercial transactions" or "drawn for agricultural, industrial or commercial purposes," "the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act."

It will thus be seen that the Act may need amendment unless foreign acceptances and bills of exchange are to have the right of entry for the first 200 millions into the Federal Reserve Banks.

Of course, the wording of this Act can be circumvented by member banks re-discounting under Section 13 and then making transfer of credit with the reserve bank for their instalment payments.

It would seem, however, as though the Act should be immediately amended by making Section 19 read: "Eligible paper as described in Sections 13 and 14" instead of only "as described in Section 14."*

Before "acceptance" and "bill" markets can be set up here, under the new currency act America is going into an industrial expansion such as has never before been known.

Now industrial expansion has very little relation to that which makes so-called commercial paper which, in the text of the letter, appears to be the keynote of the bank act but which can have little relation to the bank act until there is expansion in prices of labor

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* Note. Since this was written Section 19 has been amended to read "Eligible paper as described in Section 13."

or commodities or there has been an over-investment in the field of constructive industry. It sometimes appears as though the greatest good to the greatest number in the world arose from popular fiction, fabrication or misinformation. What the theologians call "apparent truth" is sometimes more potential than real truth and in certain ways it may accomplish great good.

Our brothers of the South may have thought Uncle Tom's Cabin a very useful book in making white owners of black men more prudent and careful. They rested their faith in the Constitution, but fiction was more powerful.

That there was no demand for more currency or facilities for expanded credit to move the commerce of the United States, and that all such demand was a political fiction and never a financial reality will be shown in the next article.

XIX

CONSTRUCTION NEEDS.

The cry that has gone up from Congress has been, "Unshackle business." "Away with stocks and bonds and Wall Street." "Give hogs and hens, beef on hoof, cotton in bales, and wheat in barn, the right of way to market." "We will build a bank act that will give commerce right of way to bring raw products from farm to factory and family."

Let us see where commerce stands in relation to raw products from farm to factory or family.

The cotton crop of the United States is estimated at a value of $975,000,000. Summon all of the money of the world to assist in its financing to market and you could not employ $200,000,000 in sixty or ninety day bills, for the cotton grower has now some money himself. The wheat crop requires less money. The corn crop and the grass crops although worth more also take less money as they move largely in pork and beef. No great amount of money in credit form of commercial paper is required to move iron or coal. The Reading Railroad and the Steel Corporation are not makers of commercial paper. The real financial requirements of commerce are largely away from the farm and after raw materials have been multiplied in value by added labor.

The Washington authorities have been trying to get some estimates of the amount of commercial paper in the banks. For the purpose of these articles leading bankers of the country have been likewise canvassed for estimates that would be valuable in revision of the government tables. The Comptroller of the Currency in his annual report issued in December presents a table on page five showing that on June 4, 1913, of the $6,143,000,000 loans in the national banks 33%, or $2,032,000,000, were time paper with two or more individual or firm names. Single name time paper without other security was 20%, or $1,261,000,000. There were demand loans of $603,000,000, with one or more individual names. There were time and demand loans on stocks and bonds, or mortgages, or other real estate security amounting to $2,245,000,000, or 36%. If the demand loans are divided as between commercial and collateral loans, the commercial loans would stand at 58%, or $3,600,000,000.

The best estimates that we can get privately of bankers is that

the real commercial loans in the national banks do not exceed three billions, or one-half the loan account.

While the paper appears in the form of commercial loans a considerable part is for fixed forms of property and for as distinctively industrial construction expansion as are stocks and bonds. And why should it not be?

A merchant with sufficient capital to do his own banking may have several hundred thousand dollars cash in the bank, owe no money and have a million dollars in accounts on his books, or notes in his box representing commercial loans due him. His business expands and he desires to put a half million or a million into a new factory. Will he issue stocks or bonds or make any permanent borrowing for this? Certainly not. He notifies his bank he will want a half million or more money covering certain months. The bank's response is, of course, that he can have all the money he wants and give any kind of a note on time or demand. His cash balance is worthy of this credit. His borrowing is, therefore, not necessary commercial borrowing, but the commercial borrowing is forced by his construction.

The state banks and trust companies carry far less commercial paper than the national banks. On page 51 of the report of the Comptroller of the Currency will be found a record of not only the 7473 national banks but of 18,520 state banks, trust companies, private bankers and savings banks in respect to the character of their loans. Out of a total of $14,600,000,000 loans based largely on demand deposits $3,500,000,000 are secured by real estate and mortgages, and $4,500,000,000 by other collateral,—$8,000,000,000 on fixed forms of property. The "other loans" are $6,500,000,000 including of course the so-called $3,600,000,000 commercial loans in the national banks as noted above. Of these the real commercial loans are somewhere between three billion and six billion. Private estimates of bankers with far better knowledge of the real situation than is possessed by the government officials vary all the way between these two figures.

We have for some time estimated that the real commercial loans for the transactions of commerce in this country do not exceed five billions and that between nine and ten billions of bank loans are on fixed forms of property.

This represents property in process of digestion by investors. When the amount is large, or the investment fund is light, it is termed over-investment or indigestion of securities.

Nearly two-thirds of our bank loans represent constructive industry—stocks, bonds and fixed forms of property in process of digestion—and only one-third represents commercial transactions

XX

OUR INVESTMENT DIGESTION.

The highest estimate of growth in values in this country is seven billions per annum. This includes road building, house building, and all forms of property accretion. It is not probable that more than two billions take form in stocks and bonds, or in such shape as to be available in bank loans.

If, therefore, we have an investment digestion capable of absorbing two billions a year we are already and steadily over-invested by from four to five years. This over-investment is taken care of largely in bank loans. It is just as clearly property moving to market as hogs or cotton.

Strange as the statement may appear, it is nevertheless a provable fact that the flexibility in our bank reserves is entirely in this ten billions and not in the five billions of commercial paper.

The most fixed thing in the bank loans is the commercial paper, as Mr. Armour had to show the Chicago bankers in 1907.

They asked him to reduce his loans. He exclaimed, "What! I who am liquidating the country and taking the cattle, sheep and hogs that are being daily sent to market to liquidate bank loans! I who am pushing pork and beef over to Europe for money, must curtail! Gentlemen, I am the liquidator! What would be the condition of your bank loans if I turned these cattle back to the farms?"

Mr. Armour was right. The theory is that a commercial loan based upon consumable products liquidates itself. But until the world stops eating and drinking or wearing clothes or consuming fuel, there is a new note right behind the one liquidated by the consumable commodities. Across the continent there is a line of sheep and a commercial note on the tail of each sheep in endless procession. There is no fluctuation possible with commercial notes based on consumable commodities unless prices are changed, or the capital of the merchant, or middleman, is expanded.

It is Wall Street and its shrinkage in stocks and bonds; it is slaughter of the lambs, and the liquidation of margin held investments that has eased money, in every pinch, up to 1913.

One of the most sagacious financiers in Wall Street failed to buy securities in the latter part of 1913 because he was out of sorts

with the Administration and saw more clearly than Washington the danger of the situation. He declared, "1913 is 1907 over again. Wall Street has been liquidated out and there is no place for further liquidation. Therefore, any pinch must be met by suspension as in 1907."

The whole industrial and commercial structure of the country in relation to bank loans may be pictured in the form of a pyramid, a third part of which at the top is the irreducible minimum of commercial credits based on the consumable commodities of the country. The two-thirds base is the fixed forms of property in process of construction and investment digestion.

The top layer of this two-thirds, and representing less than 5% of the fixed property forms, is Wall Street with less than 500 millions in loans on margin securities,—the whole buffer or cushion and the vibratory receiver between these two forms of loans. It has been ground once or twice each year for a generation as the pressure has come upon the money markets of the country for seed time and harvests. The margin speculators, not in Wall Street but all over the country, have lost their fleeces in this squeezing. The denizens of Wall Street who survive are those who have dodged. Those who "Do not understand" lost their fleece and read "Frenzied Finance" for consolation and "got it again." The system was wrong. It was nobody's business to remedy it. "Everybody" assaulted Wall Street and nobody from Washington or the West went down to Gotham to inquire what the trouble was.

All the bankers of Wall Street said, however, and said it emphatically, "Reform your bank act!" and that being the cry sent up from Wall Street, it went unheeded for a generation.

Now Wall Street is to be reformed—to give commercial paper proper expansion! It may be seen from the above that there can be no proper expansion of commercial paper except, slightly, as the country grows. And as wealth grows faster than population there may be less need of commercial paper in the future than in the past unless there be expanding prices for labor and commodities.

XXI

CURRENCY, TARIFFS, AND LABOR NOW TOUCH ELBOWS.

If the coming expansion were commercial, there would be more emphatic inquiry, "What makes the cost of living so high?" and more would be the echoes resounding down the future years, "Living so high!"

The expansion under the bank act must go primarily to constructive industry. Does this industry, the expansion of fixed forms of property, need more credit or any more currency? Certainly not at first.

With lowering of interest rates, there will be rising prices for stocks and bonds until the returns are so low that money is invited into the constructive field. Afterward it will require all the power of the Federal Reserve Board to hold Wall Street and the expansive building industry of the country in check.

Over-investment in stocks and bonds is an absolute requisite in the construction and upbuilding of this country. When high interest rates are maintained, as in the past year, construction slows down and the moment there is a restoration of confidence, or prospects for higher investment prices as at the opening of 1914, there is a sudden outpouring of investment moneys. The undigested bonds are taken from the banks and the bank loans by the hundred million.

We have money enough and credit enough to carry our commercial transactions and four or five years of over-investment. We need at least three years of construction or over-investment to be carried in bank loans before properties are in shape for digestion by investors. But do we need more than five years? And will there be danger under the new bank act in a few years of finding that we are six or seven years over-invested, our credit reserves exhausted and our currency base endangered?

That question can only be answered by the new Federal Reserve Board, and after all they may have very little to say about it at first. After re-discounting enough commercial bills to earn dividends on the new Reserve Bank shares and to insure against contraction, they must rest their activities in this direction.

A steady bank rate and the insurance of relief when needed will alone be sufficient to give confidence for construction expansion —outside the railroads.

With confidence, credit comes fully forth and with full credit there is little need for currency or Treasury reserves. Until one or the other is called for, the Federal Board can have little control unless it undertakes to regulate the future in finance and raises the money rate and curtails credit when confidence is in full swing.

Capital itself—not Washington—will take the first alarm. It may be caused by heavy gold exports, crashes in railroad securities, shutting up railroad supply industries, or by enlarged labor pay-rolls exhausting bank reserves and forcing volumes of commercial paper from the member banks into the reserve banks for re-discount.

Or the state banks and trust companies may say construction expansion has gone far enough and they will buy only acceptances or commercial bills and grant no more credit for new construction, or they may figure that they, being outside the reserve system, had better hold more gold and less government paper in their money boxes.

The lending outside the reserve system based on demand promises will be greater than within the system, and especially so as regards construction and stocks and bonds. Here will be the first sign of trouble in future years.

The trouble cannot come primarily from labor unions and wage increases (except with the public service corporations) for under our new tariff all margins of profit which labor might eat into have been whittled away. Demands for higher wages may only close mills and factories, and there is no remedy in the reserve act.

No amount of credit in re-discounts, no low money rates and no new currency, whatever be its volume, can make unprofitable industry stand up.

Our new tariff is our safeguard here. Under it America comes into touch with labor throughout the world and the manufacturing labor market connects with the European labor market under our reduced tariff protection. Our international gold markets and discount markets are also coming into closer home touch under the new bank act.

The interest account is the very minor account, the wage account is the maximum one. This is well illustrated in the case of Germany, which has advanced relatively more than any country in Europe the past generation, while paying the highest interest rates.

XXII

NEW BANKS NEED NOT BE EXPENSIVE.

Washington needs to be reminded of one point in respect to its reserve bank organizations. Already the politicians and public servants are talking of regional reserve banks with 1000 and 1500 clerks and the large amount of floor space required.

If Washington is to open up banking business on this scale and is to continue its income tax on the present basis the best investment of surplus funds at the present time is in Washington real estate. The 30,000 unemployed who rushed to Detroit for Mr. Ford's five dollar a day minimum wage may be equalled by the rush for employment in Washington to sort out the income tax returns which are now being dumped by the ton into a building there and which will require an army of clerks to handle.

There has been some misunderstanding of previous articles concerning the use of sub-treasuries and mint offices in connection with the establishment of the regional reserve banks. It was never in contemplation to use these offices except for storage purposes and then only at the start.

The new banks are not to deal directly with the public. Personal interviews will be few. Until the clearing house function is put into operation they do not require any considerable floor spaces.

Whatever may be the promises of politicians concerning the expanded clerical forces it will be a matter of extravagance if there are any regional reserve banks in this country requiring at any time a force of 1000 people. The largest bank, yet to be established, say at New York city, should require less than 500 persons.

Some bankers figure that less than 100 persons should be able to do all the work of the regional reserve bank of New York for many months after its organization.

On the average the reserve banks must have less than 1000 accounts. They do not require much furnishing beyond a commodious safe, upstairs counters, and ledgers. They no more need first floors than the big banks of New York City need first floors for their accounting. The Hanover and most other big national banks in New York city have their accounting forces and ledgers in the tops of the skyscrapers where land and light are cheapest. The

reserve banks will be mostly book-keeping propositions and the public is likely to learn therefrom that banking is a credit rather than a cash business.

The New York banks that handle the largest volumes of money have the fewest personal calls. The big banks of Chicago and Boston do a far greater business with individuals than any bank in New York, although the footings of the New York bank ledgers are much larger.

For purpose of future comparison we give the clerical force of the largest mercantile bank in the United States—the Old Colony Trust Co. of Boston—which has 27,000 accounts, 25,000 of which are active. There are big banks in New York whose reputation is worldwide that do not have one-tenth this number of accounts.

In January the Old Colony Trust Co. at both its Court street and Temple place offices attended to the personal wants of 143,000 visitors, or an average of above 5000 a day, besides its vast correspondence and its voluminous ledgers. It did this with a force of only 476 employees, including its 35 officers.

Boston not only has the largest banking institution holding the largest number of mercantile accounts, but it has the most extensive clearing house system in the country.

It is in two divisions. The local clearing takes place at 10 o'clock in the morning for 13 member national banks and the Sub-Treasury. Five outside national banks and 23 trust companies, including the Bank of Nova Scotia, also clear through these national banks, a total of 42 local bank clearances including the Sub-Treasury. A half hour despatches this business which last year aggregated $8,820,-976,374 in exchanges.

But what makes the Boston Clearing House interesting is what is called its Foreign Department, where at 3.30 in the afternoon clearance is made for all the banks and trust companies of New England to the number of 644.

This clearance system, which is the most extensive for country banks in the country, has often been cited for its maximum of efficiency and minimum of expense.

New England exchange is here cleared at an expense of seven cents per thousand dollars. The clerical force numbers 18. The total exchanges for the clearing house year to April 1, 1913, were $572,297,780, and the expense was $39,990.

The expense of the Federal Reserve Banks when they undertake the clearing house function will depend upon their methods of handling the same, also to what extent they use the existing clearing houses and bank forces.

Canvassing the larger banks of New York City for response to the question of expense and floor space required for the New York regional reserve bank, not a single one will hazard a guess.

One bank estimates that it might be: "A pretty large operation." Another says: "Territory is yet too indefinite"; another reports: "Too little known and too few regulations at hand to form an estimate"; another says: "Until regulations are issued would not hazard a guess"; another large bank responds: "Don't know where the handle of the wheel is, to make an estimate."

Nevertheless, we will adjoin these gathered statistics for anybody who wishes to guess.

The National City Bank employs 477 clerks and has 78,600 feet of floor space.

The Chase National Bank has 230 clerks and 20,000 feet of floor space.

The Guaranty Trust Co. has 370 clerks and six large floors.

The Corn Exchange has 140 clerks and two large floors.

The Fourth National has 150 clerks and 11,000 feet of floor space.

The Mechanics and Metals has 160 clerks and 10,000 feet of floor space.

Inquiries have been made if trust companies having authority under state laws to establish branches may continue this practice if they join the Federal Reserve System.

We should advise any trust company, contemplating membership in the Federal Reserve System, to establish any contemplated branches before it enters that system. Branches allowed under state law and already established would probably not be interfered with by membership in the Federal Reserve System. The purpose of the act in respect to state banks and trust companies is that they may become members without changing their powers as derived from the state, but, as respects examinations and reserves, must conform to national bank regulations.

There are national banks that have branches that were established before they entered the national banking system and they were permitted to come in and hold their branches but could not establish others.

Trust companies or state banks with branches already established might very properly make application for membership with the Federal Reserve. It is wholly within the power of the Federal Reserve Board to accept or reject any application. If a state bank were admitted with its branches, and it probably would be, there could be no objection to its continuance with branches until the

Federal Reserve Board elected to prescribe rules for all members concerning their branch relations. Then the state banks if they did not care to conform thereto might withdraw or be put out. A state bank can be admitted "under such rules and regulations" as the organization committee or the Federal Reserve Board may prescribe, but under the law the Federal Reserve Board must make bylaws requiring state banks coming into the system "to comply with the reserve and capital requirements and to submit to the examination and regulations." It is further prescribed in Section 9 relating to state banks that on failure to comply with "the regulations of the Federal Reserve Board" the Board, after hearing, may require such bank to surrender its stock and receive back its cash paid subscription with interest.

XXIII

FEDERAL RESERVE NOTES AND BOND VALUES.

It is asked if there will be two classes of Federal Reserve notes, one "for the purpose of making advances to Federal Reserve Banks" and the other for circulating notes based upon government bonds as provided in both Section 4 and Section 18.

The issue of Federal Reserve notes under these sections is similar to the issue of national bank notes secured by government bonds and this class of federal reserve notes should rank with national bank notes. These sections, in effect, extend the national bank act, in its provisions for bond-secured circulation, to the Federal Reserve Banks. But it prescribes that the Federal Banks shall not be limited in their issue of bond-secured circulation by the amount of their capital stock.

This is of course necessary, as after two years the Federal Board has the right to require the reserve banks to purchase from the offerings of the national banks 25 millions of bonds per annum (including all their purchases) and they may take out a like amount of circulation against the bonds or may convert into 3% bonds without circulation privilege.

Here again the wisdom of the Federal Reserve Board will be put to the test. It has the authority if the bonds are offered in retirement of national bank circulation to require the federal banks to take up 25 millions of such bonds for 20 years, or 500 millions in all. A 20% shrinkage in the value of these bonds is easily possible in time of war or national stress and such a shrinkage might involve the whole capital of the Federal Reserve Banks.

If at the end of the 22 years the federal reserve banks are found laden with 500 million 2% United States bonds with the circulation privilege, there is the frightful possibility that the value of such bonds, even with circulation privilege, might be seriously dragged down by Washington proposals to issue two billion more which would be the amount then required for the purchase of the telephone interests of the country.

If the Washington authorities had succeeded in stopping all railroad construction during this 22 years, halting railroad credit and construction that it might purchase the railroads a little more

cheaply, it would require 10 billions additional to purchase the railroads at $30,000 per mile and the lowest cash value of their equipment and terminals.

It may be argued that the railroads could be purchased through their shares at $20,000 per mile, or for 5 billions. But certainly if credit were easier at two, three or even four per cent. government bonds would issue to take up the railroad indebtedness as it matured. And billions more would follow for the delayed improvements and extensions.

Certainly within a generation 20 billions of bonds, if they could be sold, would be outstanding for the acquisition of telephones, telegraphs and railroads if it was once determined that the government should own all these and meet the necessary (to say nothing of the popular) demands for improvements and extensions.

It may be answered that investors forced out of railroad shares and bonds would be obliged to buy government bonds on a two to four per cent. basis. Investors would do nothing of the kind. They would purchase industrial bonds, securities of mercantile and trading companies, or loan their money abroad at better rates of interest. The Federal Reserve Act, with its foreign branch extensions, and the new tariff placing our prices more on a parity with those of the outside world, would both aid in the export of money to other countries.

The whole world has tried for many centuries to enslave the money of the individual and direct its work and return. It has failed absolutely; indeed has never had a show of success. The whole world could beat, imprison or crucify the Jew, but since he invented the bill of exchange he has been able to laugh at all his oppressors.

"How is it," said a bright Virginia girl one evening at a London dinner table, addressing herself pertly to a South African gold king, "that you Jews go to South Africa and bring back the diamonds and the gold and yet you never seem to work?"

With a benign countenance the South African millionaire smiled upon her and replied: "We don't drink. We trade, and therefore we don't have to work; you English work and drink and then must work some more."

And the little lady thus had her lesson in both temperance and finance.

It behooves the Washington authorities if they would insure the success of the Federal Reserve Act to put a strong hand over the mouths of the yap who would have the American eagle scream from the capitol that this government can buy its telegraphs, its tele-

phones, and its railroads, and issue billions of bonds therefor, unless the government is quite willing that at the same time the American eagle shall scream to all the world the destruction of the national banking and Federal reserve systems.

Bond dealers and investment houses can measure with fair accuracy the value of United States 2, 3, or 4% bonds without the circulation privilege, when limited to the existing amount of bonds, but no man lives who can give a close guess, of the world's appraisement in market quotations, of United States two, three or four per cent. bonds issuing by the billion.

Credit is sensitive to talk and agitation.

The fall in English Consols from 114 in 1896 to $71\frac{1}{16}$ in 1913 is not explained by either the South African war or the change in their rate of return. A large part of that decline is due to the issue of 400 million dollars of Irish land stock to assist the tenant farmers of Ireland to buy their land. Fifty million dollars a year have been issued now for eight years and it is expected to continue for eight years more at this rate.

Those who get the cash for their estates in Ireland do not seem to be very hearty supporters of Consols by reinvestment therein.

If the government once enters upon the policy of telephone and railroad purchase in the United States, and the fall in English Consols is any criterion, the price of United States 3% bonds without circulation privilege will in this country be under 70. There may then be a question as to the value of the different kinds of notes issued by the Federal banks: First, those issued by the United States Government for the Federal reserve banks on the security of commercial paper; next, those issued on the security of bonds purchased by the banks themselves; and thirdly, those notes issued on the security of the bonds which the Federal Board has forced them to purchase.

XXIV

RESERVE DEFICIENCIES.

The new Federal Reserve Board will have power to suspend for thirty days and to renew such suspension for fifteen-day periods any "reserve requirements," but it must "establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter provided." But it is specifically provided that when the gold reserve under the notes falls below 40%, the Federal Board shall establish a graduated tax of not more than 1% per annum upon such deficiency until the reserves fall to 32½%. Now comes a little new puzzler in taxation.

It reads as follows:

"When said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board."

How to add an amount of tax on a deficiency, that may exist only for a day, and have it equally applied to a rate of discount requires a little study.

One of the biggest banks in the country replied that, although it had more than four hundred men in the institution, it had not therein brains enough to interpret this into concrete figures.

Professor O. M. W. Sprague, in the Quarterly Journal of Economics for February, 1914, in an article on the Federal Reserve Act, which everybody interested in the working out of the Act should read, says: "The arrangement would seem to be a most unworkable one, since there is no means of knowing to what extent a borrowing bank will have occasion to use the proceeds of its loan in the form of notes. Fortunately this provision of the Act is never likely to become operative."

On the contrary, the whole danger in the Federal Reserve Act is the possibility of expansion or inflation with loss of gold reserves forcing credit contraction.

Provisions that cannot be interpreted or made operative do not beget confidence in their remedial virtues.

The Federal Reserve Act is to operate for very many years and, with threatened export of gold and possible great expansion of reserve bank notes, the possible deficiency in gold reserves must be carefully taken into account and considered.

Reserve banks must hold 35% in "lawful money" against deposits, but when those deposits are called for in currency the reserve requirement so far as currency is issued becomes immediately 40%.

The only safe conduct in respect to Federal Bank reserves is to keep them so far as possible in gold. This should not be difficult, as the member banks, and the entire system, must rely upon the reserve banks to maintain both commercial credit and the gold reserve. As the 35% "lawful money" reserve against the deposit liability is practically interchangeable with the gold reserve (both reserves were previously proposed at 35%), the wisdom of the law making the tax 1% per annum upon deficiency in the gold reserve down to 32½% is apparent. The Federal Reserve Board will, therefore, be able to make the same penalties on reserve deficiencies both as respects the gold reserve and the deposit liability reserve.

The question is, How to assess the reserve deficiency tax by adding it to a rate of discount?

Suppose a member bank, approaching the reserve bank with "eligible" commercial paper, and desiring bills for payroll account, is informed that the re-discounts offering that day are liable to so enlarge the issue of Federal reserve notes that the present 40% in gold reserve will drop to, say, 31%, the member bank may elect to borrow on its short-term paper and thereby become liable for only a brief period in which the deficiency exists. Nevertheless, as it passes the reserve notes over to its customer on a longer time discount it may add to the discount rate for the whole period of the discount this day's tax on deficiency, applying it to every day of the discount. The member bank itself must pay in discount 1% above the established rate previously prevailing.

As a 40% reserve is required, a one per centum tax upon the deficiency means four-tenths of one per centum added to the discount rate. This increases by 50%, or to 1½% on the deficiency, when the reserve is below 32½%, thus adding six-tenths of one per centum, and making one per centum to add to the discount rate.

If the established rate is 6%, and, of course, it would be at least this when reserves are in jeopardy, the whole matter may be put in tabular form as below. In the first column is shown the falling in reserves. In the next column is shown the tax on deficiency. In the third column is this tax on deficiency transposed into a rate of in-

terest on the loan. A one per centum tax on the deficiency where a 40% reserve is required, means, of course, 0.4% when applied to principal. The fourth column shows the rate of discount by adding this deficiency tax rate to a normal rate of 6%:

Reserve	Tax on deficiency	Rate added to dis. rate	Discount rate on 6% basis
40 ..@..32½%	*1%	0.4%	6.4%
32½..@..30 %	†2½%	1.0%	7.0%
30 ..@..27½%	4 %	1.6%	7.6%
27½..@..25 %	5½%	2.2%	8.2%
25 ..@..22½%	7 %	2.8%	8.8%
22½..@..20 %	8½%	3.4%	9.4%
20 ..@..17½%	10 %	4.0%	10.0%
17½..@..15 %	11½%	4.6%	10.6%
15 ..@..12½%	13 %	5.2%	11.2%
12½..@..10 %	14½%	5.8%	11.8%

*Maximum.

†This and the following rates are the minima permitted.

It will be noticed that when the gold reserve drops below 20% a 10% tax on the deficiency becomes likewise a 10% discount rate. If the gold reserves should fall to 10% the discount rate would be 12.4%.

Any expansion or inflation would be in the way of correction long before extreme rates were reached.

Nothing less than this would be a corrective, for any interpretation that would give borrowers the benefit of a shorter term in the deficiency would be highly speculative and would not correct the situation.

The member bank is under no legal obligation to charge or transfer to its customer the tax of the Federal Reserve bank for federal reserve note accommodation when gold reserves are deficient. Member banks can, of course, at any time charge their customers any interest rate. But the Reserve bank will be taxed by the government daily for its reserve deficiencies, and every day it discounts it must add the government tax to its rate of discount, in its accommodation to member banks.

The member banks must, therefore, pay in a rate of discount the day's tax on the deficiency multiplied by the number of days of discount. This may add to the Reserve bank's profits because it may collect of the banks many times more than the amount it pays the government. However, there is no incentive for profit as in the

end the government gets all the earnings above 6% cumulative dividends on the Federal reserve bank shares.

It may be thought that the member banks can borrow on call of the Reserve banks, but the Act nowhere contemplates any call loans. The Federal Reserve notes are issued only in re-discount of commercial paper and must be secured thereby.

XXV

THREE PER CENT. MONEY.

"A mighty feast of fat things awaits the world of trade," declares Moreton Frewen in the London Financial News, reviewing our Federal Reserve Act and quoting President Wilson's benediction in signing it: "Nothing can be for the interest of the country which is not in the interest of everybody."

Frewen closes as follows:

> "Fully reviewing the bill just passed, why should we not, by its help, all enjoy 3 per cent. money rates for some years to come? And if this act, in England, Europe, America, does blaze the trail to cheap money, high wages and brisk business, should not all other governments, even as Uncle Sam, become bill discounters? The act presents us really with a new chapter in monetary science."

"For some years to come," is the refrain of the inflationists. Let it be hoped that the emphasis will rest rather on the permanence of this "new chapter in monetary science."

The jubilation of Moreton Frewen and of all England and of all Europe over Uncle Sam's new bill as "a mighty feast of fat things" for the whole world should not for one moment be forgotten.

It was perfectly clear to some financial observers twenty years ago that if the campaign for the remonetization of silver, so ably supported by Moreton Frewen, failed nationally and internationally, it would be the British Empire, with its crown of gold on a silver base in India, that would within this generation feel the pinch for gold more than America. That time has arrived, and the United States has now reached a position where it could be dominant in the world's money.

Is it to throw away this advantage after twenty years of accumulation?

First, last and all the time, the danger in this bank act is the demand for 3% money. It stalks boldly to the front in Section 27, continuing the Aldrich-Vreeland Emergency Currency as 3% money.

Certainly we have reached "a new chapter in monetary science," if reserve and emergency currency can be safely put out on a 3% basis.

While the Reserve Act was in construction the question was

asked in the private debates at Washington as to why the Aldrich-Vreeland reserve money was never to be availed of. One party said: "No bank would borrow money of the government at 6% and loan it out again with the rate increasing 1% per month. In a short time it would be 10% money. Senator Aldrich says the Act is unworkable and cannot be amended to work."

Thereupon a modest senator replied: "The intention of that Act was 10% reserve money. It was never meant that the currency should issue until money was 10%."

"How can you say that?"

And the senator responded: "I can say it because neither Aldrich nor Vreeland wrote that Act. I can say it because I wrote it myself and the intention of the so-called Aldrich-Vreeland Act was to supply money at 10%."

As amended in December by the present Congress the Aldrich Act now reads:

> "For the first three months a tax at the rate of three per centum per annum * * * and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes."

It has been previously noted in these articles that, during the three-year period in which reserves are being transferred from reserve and central reserve cities to the federal reserve banks, reserve city banks are permitted, for the first time, to keep reserves with each other. This may not be important, because temporary.

But toward the end of the same Section 19 there is a provision under which abuses may grow up. This provision is:

> "In estimating the reserves required by this act, the net balance of the amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserves shall be determined."

It is a widespread belief that this is a provision copied from the national bank act.

It may surprise a great many bankers to learn that there is not, and never was, any such provision in the national bank act.

The national banks have been conducted now for many years as though this were a part of their constitutional provision privilege.

The authority, however, for this universal practice among national banks is to be found only in a ruling from the Comptroller of the Currency. It is now incorporated in law. It can be subject to some abuses.

Suppose a small bank losing $1,000,000 in deposits desires to conceal the same in its advertised or published statements. It has only to make an exchange transaction with another bank, and, with or without the passing of checks or drafts, banks, operating in conjunction, may credit each other with $1,000,000 of deposits, against which no reserve is required.

The desired covering up of the hole in a bank's deposits may thus be effected.

If it is answered that the Comptroller or the Federal Board would quickly detect this practice, it may be rejoined: How could it be detected if the banks were corresponding banks, and the balances were accumulated each as agent for the other in check collections?

Here is a subject for thought when, if ever again, Congress is called upon to discuss the question of bank deposit insurance.

The only insurance in bank deposits is honor, and this cannot be had by legislation.

The Untermyer provision in Section 22, providing that other than the usual compensation from the bank, "no officer, director, employee, or attorney of a member bank shall be a beneficiary of, or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank," was meant, after years of agitation, to stop the payment of personal gifts or commissions in connection with bank loans.

But the act is so broad that a commission note broker cannot now sit on a board of directors and receive any part of any commission paid his firm for selling paper to or negotiating a loan at that bank.

Directors who are members of banking firms doing a commission business, or having bank accommodation, must consider this clause very carefully.

It is good opinion in legal and banking circles that, although this clause is much broader than was intended by its framers, the courts will construe it according to its language.

Therefore, the only safe course is for members of banking houses borrowing or doing business with any bank, to be sure they are not directors of that bank, or that their house does no business with or at that bank, directly or indirectly, while they are on the board.

There is only one way to insure this and that is to get out of bank directorates.

If ownership in the bank is such as to demand that a banking house have representation on the board, it must get somebody outside to represent it upon the board. If the substitute is not a dummy

director, he may very soon forget who placed him on the board, and there may be no loss in the efficiency of the bank direction. But if dummy directors are substituted, the efficiency of the bank direction will be impaired. The dummy director will be simply a reporter to the man who placed him there. Even in this position, it is doubtful if the dummy director could receive any compensation, or be in any way in the employ of the banker.

The proper method of maintaining bank direction efficiency, and complying with the provisions of this section, is to adopt the Carnegie system; make the employees of the bank the directors, and let the minutes of the directors' meetings be sent to the interested shareholders, who may thereupon promptly, as did Mr. Carnegie, return advice and suggestions.

The advising bank shareholder would then probably not come under the penalty for violating any provision of Section 22, the maximum of which is a $5000 fine and one year inprisonment.

Bankers should take note that this provision went into effect Feb. 23, or 60 days after the passage of the act.

XXVI

TIME DEPOSITS AND CALL LOANS.

One of the most sweeping changes that may take place under the new bank act will arise from the transfer of demand deposits to time deposits.

In Europe a majority of the bank deposits are on time. Rates of interest are scientifically regulated so that demand deposits draw very little interest. Deposits payable on thirty days' notice draw a fair rate of interest, and six months' and year deposits draw up to as high as 4%.

In this country the custom has been for almost everybody to feel that money in the bank is money in hand. Such is our spirit of freedom and independence that almost everybody hugs the delusion of his own competence to invest his money either for a month or a year, and he therefore cares for no bank moneys, except those which are spot cash. But wisdom will eventually prevail in this, as in all other realms.

Time deposits are sure to grow under the stimulus of the new bank act, which cuts the required reserve on time deposits, defined as "payable after thirty days," to 5%. This definition was inserted in the first paragraph of Section 19, at the last conference before the passage of the act, and at the request of the country banks. President Andrew J. Frame of the Waukesha National Bank, Wisconsin, was as much responsible for it as anybody, and he figures that it will cut down the home cash requirements on this class of deposits to approximately 2%.

It is estimated that there are about $800,000,000 of time deposits in the national banks—time certificates of deposit were reported in October as $534,000,000. A provision which cuts down the new reduced reserve requirements by more than 60% further may stimulate the banks to invite their customers to mark a considerable part of their deposits as time deposits.

It can be readily pointed out now to any borrowing depositor that his deposit should be kept up to about one-fifth of his borrowings. Therefore a depositor borrowing $1,000,000 and keeping $200,000 on deposit, can be quickly induced hereafter to see the wisdom of assisting the loaning power of his bank by marking $200,000 of his deposit as subject to 30 days' notice. Should he desire to

check against his deposit below his time line, he will find it a little more mutually helpful to make a temporary borrowing of the bank, instead of a draft on his deposit.

He may thereby assist the bank in a central reserve city in keeping a part of its deposits in such shape that only a 5% reserve is necessary, instead of an 18% reserve, as required on demand, on the usual deposit account. Indeed, he need only start with a "time deposit," payable after thirty days, and thereafter all his deposit is "time deposit."

Such a practice extended through the country could very quickly cut the reserve requirements so that instead of $400,000,000 bank reserves being transferred to the Federal banks, less than $200,000,000 would be transferred. There would then be no necessity for rediscount with the reserve banks in making any instalment payments.

Therefore, the new Federal Reserve Board had best go a little slow in calling for more than $50,000,000, or one-half the subscribed capital.

A change of interest in brokerage circles is likely to follow the inauguration of the new banking system. It will be the making of brokers' call loans nearer in rate to mercantile time borrowings. In other words, time borrowings will come down, and demand loan rates will go up. The banks in central reserve cities, subject to great fluctuations by reason of their holding of other bank reserves, have been accustomed to keep their line of secondary reserves in brokers' and bankers' call loans at the lowest rate of interest, because of the quickness of the payments on call. When banks may step over to the Federal reserve bank and re-discount at, say, 4%, with commercial paper, they will have no necessity for their extended loans on quick call in bank and brokerage circles; and all borrowings, time and demand, will approach a more uniform rate of, say, between 3½% and 4½%—for a time.

The above change in the demand loan market, by reason of the transfer of the banks' secondary line of reserves from brokers' call loans to the Federal Reserve banks, will withdraw a great stimulus from stock speculation in New York and possibly in a minor degree as respects Boston and Philadelphia, which have the next largest stock exchanges.

When a broker, as in periods of easy money, is urged by his banker to make use of very low rate call money, the stimulus to the broker to solicit business throughout the country on a 4% to 6% interest basis, where he is paying only 2%, is very great. The broker not only gets the commissions, but can make an equal amount of profit on his interest account.

Many of the largest brokerage houses of the country have felicitated themselves on their ability in some years to pay their entire expense from their interest account, leaving the stock commission account as "velvet," or clear net profit.

As previously stated, neither the broker nor the banker is responsible for this situation. The responsibility is national and is in the bank act which centralized reserves in New York and left only a call loan market for flexibility.

Of course, a great question in the financial world is as to what effect the withdrawal of bank reserves by the hundred millions from New York City may have upon the banking power of New York and its financial supremacy.

It should be clear from considerations already set forth that under the Act the financial profits of New York as of all other financial centers must be expanded rather than diminished.

The advantage of the re-discount privilege with the Federal Reserve Bank may prove greater than the loss by bank deposits. New York banks will get a higher rate of interest on their call loans and can move with greater confidence in financial transactions with the knowledge that at any moment they can re-discount their commercial paper.

This constitutes for the New York bankers not only a stronger and safer, but more profitable line of secondary reserves, and combined with reduction in reserve requirements should fully compensate for the loss on deposits from other banks.

There is also in the Act that which the banks themselves appear not yet to have realized—the possibility of multiplying their financial power and resources by adopting the Continental system of time deposits, which system is just as applicable to New York banks as to European banks.

One of the great advantages the trust companies have had over the national banks is that they could pay 3%, and sometimes a fraction more, for time deposits, as the state laws call for no reserves against these.

Now, the national banks of New York will be on a much surer footing in competition with the trust companies.

They not only have their reserve requirements reduced more nearly to the requirements of the trust companies, but they can compete for time deposits, and they may apply, under Section II., Paragraph K, for permission "to act as trustee, executor, administrator, or registrar of stock and bonds."

Large national banks are preparing to apply for this permission.

Competition between national banks and trust companies will be keener hereafter.

The trust companies and state banks are already before the legislatures asking reduction in their reserve requirements and expansion of their powers.

When it comes to state and national governments competing to reduce bank reserves and expand bank powers, who can foretell all the results?

There will certainly be money enough to go around and New York will have facilities for all the banking business that it now does, and likewise facilities for many years of growth and expansion.

The purpose of the Act will be carried out likewise in the upbuilding of other financial centers. Boston, Philadelphia and other cities, and possibly towns, will call home part of the reserves they now keep in Reserve and Central Reserve cities and will stimulate local enterprise with local borrowings at fair rates, confident that in time of stress they will have "eligible paper" for re-discount with their Federal Reserve Bank; and this directly, without the intervention of any Reserve City or any Central Reserve City bank.

It is not believed that there will be competition, at least in the East, between savings banks and national banks, but in the West, where the national banks have to a larger extent established savings departments, the growth of savings may be with national banks rather than by any expansion in the number of independent savings institutions.

Although the Reichsbank has 495 branches throughout Germany, it is not believed the Federal Reserve system will call for the establishment of anything like this number of branch banks in this country.

But branch banks may ultimately be set up to the number of clearing house centers, of which there are at present 162.

The primary estimate for branch banks is a possible hundred.

When the Federal Reserve Act was passing through Congress many changes were suggested in the various forms of our national currency.

The answer to all these suggestions was: "When we get the bank bill through we will take up as another measure the amalgamation or unifying of our varying forms of currency."

It is not believed, however, that Washington or the country will care for any further financial debate, at least until the Federal Reserve Act is in extended operation and well beyond all the experimental stages.

Therefore, no immediate additional financial legislation need be looked for soon, except as the new Federal Reserve Board may apply for some slight amendment to this latest bank act.

XXVII

SEVEN POSSIBLE INFLATIONS.

The problem of inflation—proper and improper—under the new bank act presents so vast a field of possibilities that it can be touched only in outline.

The first inflation has already been felt throughout the civilized world. It is the proper inflation of confidence begotten of the fact that American bank reserves, the United States Treasury reserves, and the nearly two billion of gold in the United States are to be unshackled under the new bank act for the commerce and finance of the world.

The benefits of this expansion are withheld from American industry by the refusal of the Washington authorities to give credit to the greatest customer of industry—transportation.

When once the railroads of this country are unleashed, no man can measure the proper expansion that will be given to legitimate industry and commerce from something expressed by the sole word—confidence.

The president of a New York bank, ranking as one of the strongest, but not one of the largest or oldest, says: "My bank has three million dollars gold in its vault but since 1907 I have either gone to sleep, or awakened, or been awake every night with a reflection for a minute or so as to what would be the result in my bank if somebody shied a brick through the window of its general credit.

"With any lack of confidence in my bank its three million gold would flow out in a few hours and any call for re-discount or financial assistance might forever end the progress or career of the bank.

"The moment this Federal Reserve Act goes into effect I shall sleep more soundly. I shall not have watchful eye on that three million gold. I shall have only to watch the character of my mercantile discounts and thereby feel reasonably sure that nobody can shy a brick through my credit window, for my loans can through the Federal Reserve Bank command the cash to pay every depositor on demand. If I have bonds in my reserves I can sell them in a market without every other bank competing with me in the sale."

The second inflation, and this is the beginning of danger, is

when the new system is inaugurated and the cash reserve requirements drop by the sum of 260 millions.

If the system is inaugurated in the late spring or early summer and its effect has not been previously unduly anticipated, there should be a second outpouring of money for bond investments.

If the inauguration of the system is postponed until fall it will be within the power of the Treasury by withholding its moneys from the banks to advance the money rate and curb any investment fever.

The third form of inflation may come through the transfer of demand deposits into deposits on time, or as defined by the Act, "payable after 30 days." As previously noted, more than half the deposits of European banks are time deposits with graduated rates of interest.

It is a little strange that, with no reserve requirements for time deposits in trust companies, there has not grown up a more extended system of credits based on time deposits.

But in the forthcoming sharp competition, between state banks, or trust companies, and national banks, time deposits are pretty sure to steadily gain at the expense of demand deposits, thereby cutting the reserve requirements so that in effect banks throughout the country will hereafter require no more cash than they themselves consider necessary to promptly meet their daily needs.

In effect, with the transfer to time deposits there is not only the elimination of all fixed reserves but the practical abandonment of cash in reserve in the bank. The real reserve is with the Federal reserve banks, and the necessity therefore doubly obtains for their carrying the very largest reserves and inaugurating the new system with no primary efforts at money-making.

It is within the power of the secretary of the treasury to hold his hand firmly on the fourth power of expansion in the Reserve Act, to wit: the deposit of the United States Treasury reserve moneys which may range anywhere from 150 to above 200 million dollars. This money properly belongs in the banks. It is the people's money, improperly withheld from bank and pocket circulation, but its sudden restoration would be just as much expansion or inflation as would be a sudden import of gold by the hundred million or the creation of additional currency.

The fifth power of inflation may be found in the extension of credits outside the banking field through "acceptances," and this may have a very steadying influence.

If banking concerns, with sufficient capital, are established in this country to make commercial acceptances liquid in an open mar-

ket, in conjunction with the acceptance allowed in commercial transactions under the new bank act, there may be a very broad bill market in this country inviting investment moneys. As explained in a previous article, this is not the American system and it is not yet clear that outside acceptance and discount markets inviting either home or foreign investment capital can be readily set up here. But the possibility is clearly encouraged by the Act broadening bank investments into the exchange and acceptance market.

Indeed the Act is so broad in this respect that Federal Reserve Bank moneys may yet carry millions in stocks and bonds although they cannot do this directly for member banks.

To be useful the federal banking system must be put into the outside foreign exchange and acceptance markets and then in times of need it can call in this money without disturbance to the home markets. This is one of the great elements of value in the coming financial system. It is designed to make easier international exchange, which means freer flow of capital between countries.

In the purchase of some forms of exchange no limitation can be set up as respects bankers' bills whether they are based on wheat or bonds.

Certainly if Morgan sells 10 million of Southern Railway bonds in London his draft for the money should be good international exchange. What is the difference, so far as the exchange market is concerned, if another New York banker borrows 10 millions in London against bonds? Both are mere transfers of money, so far as the reserve bank is concerned.

What, therefore, is to prevent the loan of London money in New York on stocks and bonds when the rate is attractive?

The reserve bank assisting in the transfer of money thereby facilitates the loan and indirectly must give support to financial transactions upon stocks and bonds.

The broadening of our market in the international field will not only beget confidence in American securities and loans, but will tend to the leveling up of money throughout the world.

If a local acceptance market is set up in America, this likewise will tend to the leveling up of money between centers.

Where, for instance in New England, money is habitually borrowed in anticipation of taxes on city and town notes from local funds and at very low rates of interest, the rate will be higher as the opportunities for investment are broadened.

A holder of surplus funds who does not wish to buy stocks or bonds and is not familiar with mercantile notes has only a very narrow market for funds. He will buy town notes in anticipation

of taxes, but if he could have various maturities of well drawn and well endorsed and accepted paper, with familiar names on the acceptance, he would have greater variety as respects names and maturities for his investment and might buy such paper in preference to town notes. The result would be discounts at a steadier rate, with a broader market, and town notes might have to compete therewith.

The sixth power of inflation—before we lose a good measure of gold in the international markets—may be found in the field of government regulations for the transfer of moneys. How this will work out no man can tell. It begins with the postoffice and the new postal money order law providing for the issuance of money orders payable at any one of the 40,000 odd money order offices and ramifies through the whole gamut of clearing house and check collections, rules for which have yet to be established.

How this will work out, and whether as a measure of conservation or inflation, it is not worth while at the present time to attempt to consider; for such changes must be gradual and their effect very many months ahead of us. It need only be alluded to here. Today many millions in checks are doing duty as money in place of bank bills.

Fundamentally there is no difference between a bank bill and a check. A bank bill is a check upon the bank drawn by the cashier and the president under the direction of the government and may circulate in pocketbooks for a year before it is finally cashed at the bank or by the 5% redemption fund in Washington. A check may circulate in the mails and through the pockets of the receivers for some weeks. But even passing between banks it may circulate and perform a measure of duty in substitution of bank bills by from three to four days.

Of course the great volume of checks is local and clears in 24 to 48 hours through the local clearing house, but outside checks will do duty as money for three to five days on the average.

For instance, John Brown in Texas may send his check on a New Orleans bank to New York for $10,000. His correspondent in New York credits the check as cash on his account and may deposit it in the Hanover. There it is credited to the customer's account and the bank has the internal problem of its disposition and collection. Anywhere between New York and New Orleans it may be charged up against the bank on which it is drawn or offsets applied against it. It may do duty at many points in substitution of real cash and yet may be found a little bit questionable when it reaches its redeemer in New Orleans. John Brown may have to be notified that his check dated ten days previously has been cashed

but owing to the fact that other drafts upon his account arrived first he is a trifle over-drawn. Yet the check did money duty all the way around.

There was danger in the first draft of the new currency bill that it would give opportunity for just about 600 millions of check-kiting.

It is estimated that anywhere from 300 millions to 600 millions of checks in transit are daily performing more or less the function of bank bills.

Every bank has its rules and regulations and customs, and these are various with its customers and correspondents in respect to crediting and debiting of checks and retardation and acceleration of check collections.

When the Federal Reserve Board comes to deal with the problem of clearances, exchanges and check collections, it will be in the mazes of a vast vibrating monetary nerve system of which the public and the political authorities know today substantially nothing.

There are so many possibilities here that it is not profitable to discuss them in detail at the present time.

The seventh and final possibility of inflation will arise from any maladministration in connection with the expansion of the new federal reserve notes.

Properly administered these notes should be used as reserve. If they are used to promote expansion instead of, as properly, a regulator in respect to the expansion which the creation of a sound reserve system is inherently bound to produce, they will spell disaster of the direst type.

It may be years before a federal reserve note is issued and it should be many years before they are issued in any large volume.

But the possibilities of their issue on the present gold basis must be outlined and will be dealt with in the next and final article.

XXVIII

INFLATION BY NOTE EXPANSION.

Previous articles have dealt with various possibilities of expansion and inflation arising from confidence, lower cash reserves, time deposits, treasury deposits in banks, check circulation, and new forms of discount. The possible expansion in credit from the reduction in bank reserve requirements has been figured at between two and three billions.

As to the expansion, or the inflation, that may some time arise from the deposit of government gold or other moneys with the reserve banks, this is not at all dangerous, because against government moneys must be kept 35% in lawful money reserve in the federal banks. The danger here will arise, if ever, when the government makes application to become a borrower, which can be accomplished only after amendment of the bank act. The government now has no commerce upon which it could make commercial paper for re-discount.

The government today has far greater powers to expand credit by depositing its money directly in the national banks than it will have under this Act, so far as it elects to deposit in the Federal banks.

The deposit of the government gold will give a basis for the new federal notes whenever the commerce of the country shall demand them, which may not be for some years.

The purpose of this article is to show the possibility of expansion or inflation in this seventh form, or by the new federal notes.

If the entire capital of the reserve banks is paid by, or transmuted into, gold there is no deposit liability against such gold, and notes may be issued, as called for, to the extent of 250 millions with such 100 million capital furnishing the 40% gold reserve.

So far as gold is paid in on reserve or deposit account—and these are one—a 35% legal money reserve must be maintained against the deposit liability.

As the member banks must maintain Federal reserve and work-

ing balances—and these are likewise one—and must make part of their payments during the next three years by re-discounts in order to prevent contraction, the application for the new federal reserve notes will come through member banks desiring currency and offering the security of their commercial re-discounts therefor.

The maximum of currency to issue is measured by the maximum of gold that can be gathered in the reserve banks.

It is the theory of the best economists in the world that the new reserve banks will be in position to sift out all the gold from the circulating currency, and that, this being to their interest, they will in time accomplish it.

It is likewise possible, if not highly probable, that with the low cash reserves required of the member banks they will hold their secondary, as well as their larger, reserve in commercial paper ready for re-discount with the Federal Reserve banks in any emergency. They will therefore have no reason for the accumulation of gold and will be called upon, if necessary, by the Federal Board to pass over their gold to the reserve bank as preliminary to the re-discount for the new currency, as gold must be its 40% base.

With the gold in the United States Treasury on deposit with the reserve banks, except the 150 millions required behind the legal tenders, it is easily conceivable that the federal reserve banks may become within a reasonable number of years the holders of substantially all the gold in the country, or say $1,600,000,000 gold out of the total $1,900,000,000 estimated to be in the United States. Against the hundred million of gold representing capital account they may issue, as stated above, 250 millions of notes, but against the balance, $1,500,000,000, which must come in by deposit, there must be a reserve of 35%, or 525 millions, which set aside from their total gold leaves $1,075,000,000 against which $2\frac{1}{2}$ times this amount may be issued in new federal reserve currency with the maintenance of the 40% gold reserve.

Now let it be observed right here that the 525 millions set aside against deposit liability need not be gold but may be in "lawful money;" so that the balance sheet given below may be worked out with only $1,075,000,000 in gold, or with less than 60% of the gold in the country in the federal reserve banks.

This $1,075,000,000 gold, free from deposit liability, permits issue, on a 40% gold reserve base, of $2,687,500,000 of federal reserve currency on the security of commercial bills.

Unless there is the inflation of rising prices this would about cover all the bills that could on the present volume of business be gathered together and counted "strictly commercial."

In balance sheet form this estimate of maximum possibilities works out about as follows:

Assets:		Liabilities:	
Gold	$1,600,000,000	Capital	$100,000,000
Discounts	2,687,500,000	Deposits	1,500,000,000
		New currency	2,687,500,000
	$4,287,500,000		$4,287,500,000

Deposit reserve 35% and in gold. Gold reserve against notes 40%.
Total currency now afloat outside the banks $1,800,000,000.

In the above theoretical figures it will be noticed that with the gold concentrated in the federal reserve banks we could export 400 millions and still sustain about $2,500,000,000 of new currency by re-discounting most of the available existing commercial bills.

Of the above $1,600,000,000 gold and "lawful money" $600,000,000 can come in time from the national bank reserves. And $200,000,000 may come from the national government. To get in the other half (and one-half of this need not be gold but only "lawful money") to be held against deposit liability, requires the issue, in substitution, of either more national bank notes or federal reserve notes.

Therefore, if the national bank notes are not increased in volume and we export our gold production, as is expected, the maximum of the new money on our present gold base, in the pockets of the people, can be only $1,887,500,000, as $800,000,000 must issue for the $800,000,000 gold or "lawful money" to be acquired from the pockets of the people.

A study of the above figures will show that the net possibility, with maintenance of reserves in the federal reserve banks, is an issue in the future of not more than two billions of additional currency.

After the issue of enough federal reserve currency, in substitution, for the gold and lawful money drawn into the federal reserve banks, this two billion should be kept as reserve money.

The possible new currency issue, on the present gold monetary system, is far beyond any present capacity of the American people to absorb except by rising prices.

Under our new tariff, rising prices for labor and materials to absorb such a volume of new currency should be an impossibility for many years, or until foreign wages and prices are first advanced. And our gold exports will tend to advance them.

The declaration in the early articles of this series was that the Federal Reserve Act was comparable only to our Declaration of Independence and the national Constitution. The Articles first binding the states together were deficient in the power to tax, and the

new Constitution gave the central authorities power to tax, individually and collectively, property and persons, by every method except taxes on exports and taxes on incomes.

The articles of federation in the national bank act having been fully demonstrated to be without power of centralization, rate regulation, regulated expansion or regulative contraction, the new banking constitution remedies every defect to the fullest degree and in the most sweeping manner. Cash reserves are reduced to the minimum and under centralized control all reserves, both of reserve banks and national banks, may be suspended and the power to issue paper where paper was declared to be wanted, in commercial transactions, is so broad as to give the people a possible new currency that on the existing gold can double the volume of currency of all kinds now in the pockets of the people.

Let it ever be remembered that as a hundred years ago, and ever since, and forever forward, the power to tax is the power to destroy. So likewise the power to expand credits and note issues without reserves is the power to destroy whoever is found in bondage—the bondage of debt or of labor.

PART II.

THE FEDERAL RESERVE DISTRICTS.

FIRST DISTRICT—BOSTON.

BOSTON IS REGIOAL CENTER FOR SIX STATES, WITH BANKING POWER EXCEEDING $3,000,000,000, 13% OF NATION'S.

Highly Specialized Fields of Trade and Manufacturing Draw Heavily for Raw Material from Other Banking Districts—Manufactories of These States Have a Weekly Payroll of About $10,000,000.

Federal reserve district Number One, on the organization committee's map, includes the six New England states for which Boston is made the regional center.

This role of headship is not exactly new. Nearly one hundred years ago, when in 1818 the famous Suffolk banking regime was established, Boston became the center of a system more nearly like the Federal reserve system of today, in some essential respects, than anything that has existed since. Both alike involve the expedient of dividing the country into geographical areas on the basis of the capacity for co-operation among banks with the main purpose of developing the resources of the district.

All other systems in the one hundred and twenty-five years of our financial history proceeded either from the federalizing standpoint of a great central institution or from the local viewpoint of making each state a self-sufficing banking unit.

The district's flow of banking credits as measured by its clearings entitles it to rank third in the returns from 128 cities mentioned in Dun's Review for 1913. On the average New England's clearings total $10,000,000,000 in a grand total of nearly $170,000,000,000 for the United States. The banking power of this group exceeds $3,000,000,000, or about 13% of the country's banking power of $23,181,000,000.

New England's national banking operations lie well within its own borders, although it has enormous investments elsewhere. This appears from the following table of the total loans and discounts of

the national banks of three leading cities on January 13, 1914, as compiled by the Comptroller of the Currency:

	Total N. B. Loans	(000 omitted.) Within N. E. States	Outside N. E. States
Boston	$190,973	$145,411 (76.14%)	$45,552 (23.86%)
Providence	25,032	15,442 (61.69%)	9,590 (38.31%)
Hartford	21,202	16,019 (75.55%)	4,183 (24.45%)

It appears that out of loans and discounts of $190,973,000 by the national banks of Boston, 76.14%, or $145,411,000, were made in the New England states. Of the other states the eastern group borrowed from Boston national banks 9.5%, the South 2.5%, the middle West 10.33% and the western and Pacific states 0.74% and 0.79% respectively. Outside of its own regional borders New England national banks are largest lenders to the middle West, of which Chicago is the financial center.

New England as a banking unit stands quite alone in the degree to which many of its enterprises have been developed. It is easily the most highly specialized in the fields of commerce, of manufacturing industries and of investing capacity.

Its coastline of 600 miles, with its numerous harbors and rivers, has given its life a maritime character. No other Atlantic coast district is so largely identified with deep-water fisheries. From the South alone New England purchases little less than $200,000,000 worth of raw cotton a year, practically all of which is seaborne traffic. Its lumber fleet of sailing ships is a feature of the coasting trade between the Maine lumbering ports and the middle Atlantic ports. Its inland traffic over little more than 8000 miles of rail lines serves its industries by the delivery of raw material and fuel and the handling of its finished products.

The gross value of the products of its manufactures is now estimated at $2,500,000,000 a year, representing an investment of $2,300,000,000 and a wage payment of fully $550,000,000 a year. The pay envelopes of New England's manufactories contain an average of more than $10,000,000 each week.

One of this district's heaviest annual outlays is for fuel supplies. It draws largely for its gas-making coal from maritime Canada. A large part of the 44,000,000 tons or more of domestic coal shipped from the five North Atlantic ports finds its way into New England. Many more millions of dollars are paid annually for grain, animal products and other produce generally brought from the West or the South to supply its 7,000,000 people.

These six states have to finance a foreign trade of $240,000,000 a year. Besides this Boston and Portland are ports of exit and entry for much of Canada's external commerce, especially during the winter months when navigation is partially suspended at St. Lawrence ports. New England's commercial relations with the Dominion and the maritime provinces are more intimate than those of any other portion of the Union, excepting possibly the Minneapolis-Winnipeg trade.

One source of banking power in which this district ranks high is in its savings deposits. Out of a total of 10,060,304 depositors in the United States in savings banks on June 4, 1913, New England had 3,464,083, or over one-third. The funds placed to their credit in 413 banks were $1,489,835,704, averaging $417.07 for each depositor. This is the home of the mutual savings banks, 404 of which out of 623 of this type in the country are located in New England, whose depositors had $1,483,127,489 in their names. Although ranking among the smallest of the twelve regional districts, its banking agencies are widely diffused, there being within this territory more than 100 towns and cities of 10,000 or more inhabitants.

SECOND DISTRICT—NEW YORK.

A Reserve Bank With Resources Commensurate With New York As A Money Market Too Large.

Organization Committee Took the Middle Course—Out of a Subscribed Capital of $107,147,000 by 7475 Assenting Banks, 478 Within New York Bounds Have a Regional Bank with $20,621,000 Capital.

In the organization of the New York Reserve district the location of its regional center was a foregone conclusion. How large the district so centered should be was a financial rather than a geographical problem. A Federal reserve bank, having resources commensurate with the rank of New York as a national and international money market, would not only have overshadowed other reserve banks, but might have tended unduly to reduce their number and intensify their inequality.

Too small a reserve bank in New York would have handicapped it in competition with other institutions within or without the Federal system. The Organization Committee took the middle course. Out of a subscribed capital of $107,147,000 by 7475 assenting banks, the 478 within the bounds of New York state are authorized to share in the creation of a regional institution with a capital of $20,621,000. This is nearly one-fifth of the available capital resources for all the assenting banks of the country.

New York City, as a consequence in part of this districting, has three distinct financial functions. First, it is the leading port of the western world in the value of its foreign commerce. Its financing in foreign exchange is much larger than these values indicate, because most other ports do their foreign banking through New York. In its commercial capacity it pours over its wharves commodities in imports and exports valued at $1,966,000,000 annually, at the rate of $7,000,000 in trade for every business day of the year. Secondly, it is the distributor of domestic credits and funds on a continental scale. Its banks' clearings averaged $98,000,000,000 of exchanges

in the past five years, or 59% of the total exchanges of all reporting cities. Its average daily clearings in 1913 were at the rate of more than a million a minute. Thirdly, its newest service is that of conserving the state's national bank reserves and performing other functions within this territory.

The basic banking facts about the New York district are tabulated below. They are compared with the corresponding facts for all districts and show the proportionate rank of leading resources involved in the division:

	N. Y. District	All Districts	%
Number of banks	478	7,475	6.40
Area, square miles	49,170	3,016,630	1.63
Population	9,113,000	89,045,000	10.23
Six per cent. sub	$20,621,000	$107,147,000	19.20
*Cash in vaults	359,715,000	967,339,000	37.17
Cap. and surplus	343,693,000	1,785,791,000	19.20
*Total deposits	2,061,858,000	8,676,121,000	23.80
*Specie holdings	254,099,000	780,490,000	32.60
*Postal savings	1,037,489	22,243,089	4.67

*Jan. 13, 1914. U. S., including Hawaii. Others March 4, 1914.

One of the most striking features in this contrast is the fact that the New York district has in its custody 37.17% of the cash in the vaults of all assenting banks in the country. Equally striking is the possession of a quarter of a billion of specie holdings, making 32.6% of this class of assets of the national banks of the country. Nearly a quarter of the total deposits in national banks were concentrated here on March 4. These facts suffice to disclose the preponderant position of the nation's chief commercial and financial center.

As a holder of specie, mainly gold and certificates, New York national banks carry somewhat less than all the other 49 reserve cities combined. On Jan. 13, 1914, New York city had $254,099,235 in this form, against $305,559,597 in all other reserve cities. Of the combined specie holdings of all reserve cities, equaling $559,658,832, this single center carried in its national bank vaults 45.4%.

Regarded as a reserve district, New York state is among the most favored. The great port at the mouth of the Hudson is knit into the district's trade, agriculture and manufacturing by 100 years of constructive policy pursued along the radiating lines of its rivers, its canals and its trunk line railways. Lying between the seas on the East and the Great Lakes and the greater prairie commonwealths on the West, it holds within its limits fully 10,000,000 people, of

whom 8,000,000 are urban and 2,000,000 are rural in their occupations.

The regional reserve bank of New York must, of course, have primary regard to its legally defined functions within its own district. Yet these cannot help being affected constantly by the wider relations which connect it as a money market with the agricultural, the commercial, the industrial and the financial structure of the nation's and the world's business systems.

There are five important seasonal swings in this market, each of which reflects some distinct development in the progress of the production or movement of the crops. With each movement of farm produce there is a counter-movement of cash and credit, followed by a third movement of merchandise represented in the expenditures of the purchasing power of the crops sold.

America's main connections by travel and trade with other countries lie through this territory. As a transit-way between the East and the West, the New York district occupies strategic ground. The east-and-west trunk lines originating north of Philadelphia and south of the St. Lawrence traverse this district. The state itself has a railway mileage greater than that of all New England. No state has more intimately co-ordinated its rural and industrial towns with its main financial and commercial center. This reserve district serves its industrial markets with the products of farm, orchard and vineyard, including a dairy industry whose 3000 establishments have a yearly product of nearly $60,000,000.

By this time the state's manufacturing capital is, on Census basis, $2,500,000,000 and its annual output more than $3,000,000,000. Leading all other states in commerce and industry in points of total values, it is also the absorber of the largest tide of human migration anywhere recorded in the wanderings of the race. Last year this state received one-third of a million of immigrants into its population from alien lands.

In its larger relations this district, and especially its regional center, plays parts of world-wide scope in the investment and speculative work of finance. Chief of these is the underwriting and marketing of the stocks and bonds and notes issued in the course of each year.

When monetary stringency arises in Europe from war-scare, over-trading or other causes, the liquidation of tens of millions of American securities records its main impact on the New York security market. The capacity of this market to meet such a situation makes of it an international shock-absorber of the first magnitude. Competent authorities estimate that in the European liquidation of

securities in the past two years from $250,000,000 to $300,000,000 have been disposed of, largely through the New York market.

New York performs still another financial service not usually recognized at its real worth. The seasoning of securities, bought at issue and held until the investing public creates a demand for them, is one of the main services of its great financial institutions. As an international gold market the country's combined imports and exports in the year ending with April, 1914, were $128,837,700, of which practically all passed through the port of New York.

THIRD DISTRICT—PHILADELPHIA.

Compact Banking Territory With Commanding Central Institution Within Daily Reach Of Assenting Banks.

Economic Life Includes Best Farm Life on the Continent, Many Industries Older Than the Nation, Mining of 100,000,000 Tons of Coal a Year, and an Annual Wage Scale of Over $500,000,000.

Philadelphia reserve district is the first in which the Organization Committee departed from state lines in making up the regional bank territories. The western third of Pennsylvania, on topographical grounds and in some respects from business relations, belongs rather to the trans-mountain district than to the Atlantic seaboard region. That part of Pennsylvania lost to the Philadelphia district is responsible largely for this being the smallest among the twelve. As it stands, embracing all of New Jersey and Delaware as well as the eastern two-thirds of Pennsylvania, it has an area of 39,865 square miles, including 8,110,000 people, 800 national banks and a reserve subscription of $12,980,000.

An institution of such capitalization outranks in this respect any other in the third district. Philadelphia's largest national bank has a capital of $3,000,000 and its largest trust company one of $2,500,000. The position of the regional bank among others in this field is far more commanding in rank on this account than in New York.

Philadelphia's reserve bank stands next to New York in capitalization. It slightly exceeds the amount of money Chicago will have to subscribe from a larger number of assenting banks, for a larger population by 4,520,000 and for a territory more than four times the area of district No. 3.

Compactness of territory is a characteristic of this district. No part of it is much more than 200 miles from the regional center. This makes it feasible to send and receive communication from many places along the main transportation lines within the same business day in banking hours. At the most a 24-hour limit is all that is needed for an interchange of correspondence between Philadelphia and its regional members.

Banking within this region has found intensive development both in the northern and southern directions. Philadelphia's wider connections are on east and west lines. Its national banks have little to do with the southern states and less with the eastern. The former group afforded a field for 4.27% of all national bank loans and discounts as held on January 13, 1914. New England at that time held only 1.73% of such funds, compared with 7.29% by the middle western states and 86.14% by the eastern states, including New York, Maryland and the District of Columbia as well as New Jersey and Pennsylvania.

This district is one of the few in the East in which agriculture, manufacturing and mining are each highly developed. That makes a closely complemental banking service possible. The rotation system of farming in New Jersey, Pennsylvania and Delaware is the gift of England and Germany from Colonial times. These states base farming on the maintenance of fertility of the soil and variation in product, making improved farm lands the surety for long-term loans. Of Pennsylvania's 225,000 farms, 166,000, or 74% of them are cultivated by their owners. Credit among such communities of farmers ranks high. Risks are low. The size of the farm is determined ultimately by the size of the family, by the co-operation of whose members it is cultivated. Financially independent farms owned and operated by their proprietors lie at the basis of the economic life of this district. Its many rural towns and villages, its numerous industrial enterprises and its vast wealth dug from quarry and mine give the third district a peculiar degree of balance which comes only from a many-sided business community.

America's coal mining industry had its rise in this district in northeastern Pennsylvania, where nearly 82,000,000 net tons are now produced yearly and marketed. Transportation of coal to the seaboard is a large part of the traffic of this region. Adding the bituminous mine output west of the Susquehanna but east of the Cleveland district line, the total coal tonnage mined and moved each year in this reserve region is not under 100,000,000 net tons.

From the Lehigh Valley mines came the first anthracite coal to be used for producing steam power. Here one finds well-established industries resting on many varieties of skill. Philadelphia is still the foremost textile center of America. Five years ago it produced nearly one-tenth of all the textiles of the United States, or more than any two other cities combined, and the value of its textile product, $153,000,000 in 1909, exceeds that of any other city in the world (Walton). Philadelphia district produces 26% of the country's total output of hosiery and knit goods. This district's

manufacturing includes 40,000 establishments, 1,000,000 wage-earners and a payment of $500,000,000 a year in wages. Its carpet industry, and many of Pennsylvania's iron industries, are older than the nation itself.

FOURTH DISTRICT—CLEVELAND.

Vast Natural Resources, Inland Systems Of Navigation, And Leadership In Iron And Steel Are Features.

Comparative Banking Resources of Four Leading Cities—World's Primacy as a Freight Center in Pittsburgh Tonnage Belongs to This District—Timbers of Ohio Valley, Natural Gas and Coal.

Of the thirty-seven cities which aspired to be designated as Federal reserve centers, five are within the Cleveland district. The territory includes the whole of the state of Ohio, the western third of Pennsylvania and somewhat less than the eastern half of Kentucky, with a small segment of West Virginia.

The district of which Cleveland is the regional reserve city is remarkable for its vast natural resources of coal deposits, for its river and lake navigation systems, for an enormous development of the iron and steel industry at such localities as Cleveland and Pittsburgh, and for the possession of an unusually large number of industrial cities and towns.

In the size of capital available for reserve banks from the 6% subscription on capital and surplus, Cleveland ranks fourth, being preceded by New York, Philadelphia and Chicago. This investment is the contribution of 724 banks. In the order of the number of subscribing banks the district ranks fifth. The four cities of Cleveland, Cincinnati, Pittsburgh and Columbus, included in this area of 84,000 square miles, showed loans and discounts on March 4, 1914, of $260,088,511. Of this total Pittsburgh alone represented $124,568,231, compared with Cleveland's $62,588,735. How these four main financial, industrial and commercial centers compare in banking resources is evident from the following comparison:

	Nat. Bks.	Cap. & Sur.	Indiv. Dep.	Loans & Disc.
Pittsburgh	21	$46,714,000	$120,260,088	$124,568,231
Cincinnati	8	20,350,000	39,154,843	55,761,638
Columbus	8	4,685,500	21,853,183	17,169,907
Cleveland	7	14,400,000	40,479,025	62,588,735
Total	44	86,149,500	221,747,139	260,088,511

Within the past ten years Cleveland's resources show a growth

of 24% in the loans and discounts of the national banks alone. The financial development of the district has been closely identified with mineral production, including the Connellsville coal and coke districts, the upper lake iron ore district and the land and water transportation facilities in their relations with manufacturing and agriculture.

No other part of the world presents traffic operations on a more colossal scale than some of the leading centers in the Cleveland district. For example, the total freight tonnage shipped into and out of Pittsburgh by railway alone, not including tonnage simply passing through, is 165,000,000 tons a year. This leaves out of account the vast coal tonnage barged south on the Ohio. It includes the control of the ore-carrying trade of the lakes from Cleveland as the chief port for about 80% of the 50,000,000 tons in each annual movement.

The financial needs of the chief industries of this district are well distributed over a large part of the year, according to Cleveland's brief to the Reserve Bank Organization Committee. Commodities handled by Cleveland business houses are there valued for iron ore at $64,000,000 a year, bituminous coal at $56,000,000, petroleum and its products $33,500,000, primary iron and steel products $36,000,000, foundry and machine shop products $48,000,000 and automobiles and parts at $43,000,000.

Outside of this district its manufacturing industries are closely dependent for raw material on the Minnesota and Michigan ore deposit and lumber supplies. This gives its main manufacturing enterprises the benefit of one of the cheapest freight hauls in the world by way of the Great Lakes. On the south the timber districts of West Virginia and Kentucky are partly within and partly without this regional territory. But the well known woodworking industries of Cincinnati and other centers rely largely on hardwoods derived from the headwaters of the Ohio river basin. The natural gas of West Virginia is freely piped into western Pennsylvania and Ohio for manufacturing, and West Virginia coal finds outlet in the same direction.

The heaviest pig iron production in the country occurs in the Pittsburgh district. In many respects the fourth reserve district is peculiarly favored in its facilities by communication by land and water. Across the territory between the Ohio river and the lakes nearly every trunk line originating on the north Atlantic seaboard has its right of way. Between the lake shore and the river the canal and rail lines connect the centers of population, distribute raw materials, serve its manufacturing industries with semi-finished supplies and contribute the finished products for consumption. Not the least

important feature of the district is an agriculture of a superior order for which the many cities and towns afford local markets in contrast with the more easterly districts depending on distant sources of production.

Here interurban electric lines have enjoyed an advanced state of development.

So varied an economic life as is here found must necessarily limit its banking operations in the main to the fields of near-by states. Out of a total of loans and discounts issued by Cleveland, amounting to $60,763,000 at the beginning of 1914, 92.66% were placed within the middle western states, and 5.87% in the eastern states. Cincinnati with $52,290,000 of this class of assets placed 87.40% within the same group and 4.10% in the East. If the wealth of the district be measured by capital and surplus of its national banks assenting to the reserve system, the total of $192,147,000 causes it to rank fourth among the twelve regional banks with only that of New York, Philadelphia and Chicago ahead of it.

FIFTH DISTRICT—RICHMOND.

Five Atlantic Slope States Centralize Reserve Operations At The North-To-South Focus Of Trade.

This Territory's Financing Serves the Oldest of Farming Industries in Cotton and Tobacco Production—Forests of Hardwoods and Mines of Coal in Mountain Sections—Hydro-Electric Power Resources.

The fifth Federal reserve district, comprising substantially the five states of Maryland, West Virginia, Virginia, North Carolina and South Carolina, is grouped on the whole with regard to the lines of business movement. The present trend of business shows the current of exchange to run along two main axes. The primary axis follows the north and south lines and the secondary axis includes the east and west trend of business.

Richmond, the regional center, stands at the head of inland navigation in this region, especially for the coasting trade. Here the north and south trunk lines come to a focus, following the line thence to Washington, which is still the main easterly gateway between north and south on the Atlantic slope.

Considerations which led the Organization Committee to determine upon Richmond as the most available point for centralizing the reserve operations of the upper district in the south Atlantic states are given in the committee's statement, dated April 10, as follows: "South Carolina and North Carolina had protested against being connected with a bank to the south or west. They said their own course of trade was northeast. It seemed undesirable to place a bank in the extreme northeastern corner, or at Baltimore, not only because of its proximity to Philadelphia, but also because the industrial and banking relations of the greater part of the district were more intimate with Richmond than with either Washington or Baltimore."

A peculiarity of this grouping of financial resources is the presence, within comparatively short distances, of three such financial centers as Richmond, Washington and Baltimore. Their bank-

ing strength, as indicated by the number of national banks and other essential features, is compared below for a ten-year period:

		Richmond	Baltimore	Washington
National banks.....	1913	8	16	11
	1903	5	19	11
Inc. or decrease		3	3	0
Capital and surplus	1913	$9,484,000	$19,760,000	$11,165,000
	1903	2,970,000	18,926,000	6,102,000
Increase per cent.		220%	4.4%	83%
Loans and discounts	1913	34,732,000	63,703,000	26,834,000
	1903	11,372,000	47,222,000	14,343,000
Increase per cent.		207%	35%	89%
Individual deposits	1913	24,391,000	44,547,000	26,319,000
	1903	9,668,000	32,191,000	18,699,000
Increase per cent.		152%	38%	40%

From the standpoint of the number of national banks assenting, the Richmond district stands on a par with New York. Its 475 national banks have a capital and surplus of $105,064,000. That entitles it to a central reserve institution with an investment of $6,303,000, or nearly half as large as the capitalization of the Philadelphia institution and less than one-third that of the central bank of New York.

This district is the first in order from north to south to include agricultural operations of a different class from those common to the New England and the middle Atlantic states. Here banking enters the cotton territory. Approximately 4,500,000 acres of cotton belong to this south Atlantic banking zone. Its area of 173,000 square miles is larger than the combined area of the first three reserve districts. In population the total of 8,519,000 outranks all other districts, excepting only New York and Chicago.

District No. 5 is a particularly strong one in natural resources. Its large agricultural acreage is still expanding in two of the oldest farming industries—cotton and tobacco growing. These areas have in soil and seasonal conditions somewhat of a natural monopoly for the peculiar variety of crops, including early vegetable and fruit production. On the west lie the mineral resources of Virginia, West Virginia and Maryland. The forests of these states and the Carolinas, including hardwoods and pines, constitute primary sources of wealth insuring an extended future to the economic activities depending upon such supplies. It is not generally known that in furniture production the North Carolina towns lead all other sections of the country.

Among the natural advantages which give this district a high

place are the mineral resources of West Virginia. In 1912 the United States Geological Survey valued the total production of this state's mineral wealth at $123,872,000. Since 1906 the state has piped out into adjacent states 650,500,000,000 feet of gas out of 1,138,000,000,000 produced. The state's production of oil annually is 12,000,000 barrels and its coal output is 61,770,000 tons. Deposits of brown hematite iron ores estimated at 185,000,000 tons. Iron and steel manufactures for the state, including the northern point in the Cleveland district, are estimated at $40,000,000. In the Fairmount region alone 3,500,000,000 tons of Pittsburgh coal are available for coking purposes. The coal measures, embracing an area of 17,000 square miles, are estimated to contain 230,000,000,000 tons.

SIXTH DISTRICT—ATLANTA.

Chief Distributing Center Of Southeastern States Serves Area Of 233,000 Square Miles, And 372 Banks.

Climatic Features and Natural Resources Grouped in Complemental Relation to Distribute Burden of Financial Requirements Through Successive Seasons—Purchasing Power of the Area is Enormous.

Atlanta district makes the fifth fronting on the Atlantic seaboard. Although one of the largest in total area, it is the smallest in the number of national banks included. District Number Six, with Atlanta as a center, comprises 233,000 square miles, and is the largest federal reserve region east of the Mississippi. The assenting institutions, numbering 372 national banks, have the smallest capital and surplus among the twelve, and likewise the smallest subscription to any regional reserve bank. The 6% quota will give the new institution a capital of $4,641,000, comparing with $6,303,000 for Richmond, and $5,520,000 for Dallas, in adjacent districts.

Some of the heaviest timbered forest lands in the East are to be found in the mountain sections of this group of states. In the northern portion of the district the Appalachian range reaches its highest elevation, and the hardwood forests found there constitute the source of many of the leading steams which flow east to the Atlantic, and south to the Gulf. Probably no other eastern district is better supplied with rivers along whose banks densely growing timbers abound. These streams likewise are the sources of hydro-electric power, whose development has gone far enough to show that in due time a new industrial order is destined to be built upon this basic feature.

Climatic advantages and favored conditions in the supply of food and raw materials strike a fortunate balance here between the shorter seasons of the North and the debilitating heat of tropical latitudes. The Atlanta district enjoys the longest coastline, with the exception of the Pacific coast region, and the largest number of harbors known to commerce. None of its business localities are more than four hundred miles from the seaboard. That is practically the distance between Atlanta and New Orleans. From Atlanta to Nash-

ville, the leading distributing market is Tennessee, the distance is about two hundred miles, in a direct line. Southern Florida, in which Key West is the remotest point, is seven hundred miles from its regional banking center.

Between this last-named point, where cigar manufacturing has attained to large proportions as an industry, and the Cumberland Gap on the northern border, there is an unusually wide gamut of financial services. Through the fifteen or more harbors, the district has a foreign trade of $334,000,000 a year. Savannah, in the east, is the second or third largest cotton exporting port in the South, sharing the rank by turns with New Orleans.

From Florida ports on the Gulf, coal and phosphate are shipped in large quantities to foreign lands. Lumber and cotton and cotton-seed products are handled largely through the Gulf ports of Florida, Alabama, Mississippi, and Louisiana. Tropical fruits enter the country in immense quantities through Mobile and other ports. And New Orleans is the principal distributing point for Brazilian coffee over a great part of the Mississippi valley.

The cotton yield of these states, of which there are about 12,-000,000 acres out of a total for the entire belt of 37,000,000, is conservatively estimated at $325,000,000, or five times that of the mineral wealth of these states in 1912. Pro-rating the mineral production of the four states and portions of the states, the total for the year mentioned, according to the United States Geological Survey, amounted to $67,000,000. The mining industry of Alabama alone in the last-named year was placed at $30,641,000.

The purchasing power of this district, as measured by the merchandise movements, is high. Sales of farm products during the summer and early winter months entail an enormous volume of distributive operations from the jobbing centers of the North and West, through the commercial towns and cities of these states. The mercantile demand for funds in this distribution reaches its height just before the final quarter of the calendar year, when the harvesting of the season is begun, and farming operations liquidate their loans.

Adequacy of banking resources depends much on whether the demands for accommodations are divided more or less evenly among succeeding quarters of the year or are concentrated upon the different kinds of enterprises within a comparatively short portion of the year. The Atlanta district was presumably planned with regard to the former demands on banking resources by its industries.

The seasonal use of funds here reaches its height in one section and begins to be liquidated before the burden of demand for cash and credit reaches the other section in the succession of agricultural

crops. Among the mining and manufacturing districts, including lumbering and the production of fertilizers, the burden usually falls upon the banks at the opposite side of the year from the time when the agricultural demands are at their widest and heaviest.

Atlanta district contains approximately 2000 banks, including national, state, savings and private banks, and loan and trust companies. Outside of the Federal reserve system in which 372 banks are included, there are nearly twice the number of banking institutions found in New England in this southeastern district. Banks in these states had loans and discounts on a given date, as reported by the Comptroller of the Currency, of $425,000,000, or one-fourth of all assets of this kind in the thirteen southern states.

The twenty-one national banks in six of the leading cities of the district compare as follows in the main features of their assets:

	Nat. Bks.	Cap. & Surp.	Indiv. Dep.	Ls. & Dis.
Atlanta	6	$8,600,000	$24,348,912	$26,038,731
Savannah	2	1,600,000	1,443,161	3,244,938
Birmingham	2	3,300,000	9,995,561	10,449,274
Montgomery	4	2,515,000	6,115,197	5,658,213
Chattanooga	3	2,975,000	10,109,930	11,565,519
New Orleans	4	6,730,000	16,857,832	17,285,254

Much of the traffic of the Atlanta district follows gravity lines. This gives to the seaboard markets a financial importance in domestic trade and in exporting activity.

The financial operations attending this commerce do not always follow the lines of commercial transportation. Exports of cotton through Savannah and New Orleans, of coal through Pensacola and of lumber and phosphates through gulf and ocean ports are financed by originating centers through New York.

It is a characteristic of this region that much of its annual production in coal, timber and iron and steel as well as cotton seeks points of consumption outside of the district. Another feature is the large demand for foodstuffs and merchandise which the vast wealth created here makes on the manufacturing industries and the agricultural production of the north and the west.

SEVENTH DISTRICT—CHICAGO.

Chicago Is Commercial, Financial And Industrial Focus In The Group Of Regional Centers In Middle West.

Agriculture of Several Prairie States at Basis of a Jobbing Trade of $2,000,000,000—District Served by 38 Railway Lines Terminating in Reserve City, the Headquarters for Enormous Manufacturing Output.

Both in the number of banks represented and in the population embraced within its territory the Chicago district leads all others. Subscribing banks in the seventh district number 984, or nearly as many as the total number of all kinds of banks in New England and more than the total subscribing national banks in both the New England and the New York districts.

The capital and surplus represented in this group amounting to $211,068,000 provide for one of the strongest Federal institutions with a capital of $12,664,000. There are in addition to the national banks mentioned 15 state banks and trust companies which bring the capital of the Federal Reserve Bank up to $13,152,000, making the Chicago regional bank next to New York in point of capitalization.

Territory covered by this grouping of 173,818 square miles includes the lower peninsula of Michigan, Iowa, three-quarters of Indiana, the northern three-fifths of Illinois and the southern quarter of Wisconsin. Considering Chicago's commercial eminence and the numerous agricultural and manufacturing sections which clear through the banks of this city, the district as assigned by the organization Committee seems rather restricted. This is due to the proximity of four other industrial commercial centers, each of which serves a tributary territory not easily provided for under any other arrangement.

A glance at the map shows, however, that the centrality of Chicago's position has been recognized rather than disregarded. As a banking center Chicago is the focus of the grouping of the four other regional districts which cluster in a semi-circle around the great lakes. Eastward lies the Cleveland district, to the southwest St. Louis and

Kansas City and to the northwest Minneapolis. Together they form a semicircle of regional reserve banks.

Chicago district stands in a unique relation to the other districts of the middle West. As one of the three central reserve cities Chicago still provides the main specie basis for the credit structure on which the vast business of the interior rests. On January 13, this year, there were held there $61,559,491 in specie against $18,291,214 at St. Louis and $19,902,807 at Pittsburgh, the two other next largest reserves outside of seaboard cities.

This district's financial position among the other four of the middle West is compared in essential features in the following table:

	Banks	Cap. & Surp.	6% Sub.
Chicago	984	$211,068,338	$12,664,100
Cleveland	724	192,147,288	11,528,835
St. Louis	434	80,717,981	4,843,079
Kansas City	835	93,065,912	5,583,956
Minneapolis	687	78,381,081	4,702,865
Total, five districts	3,664	655,380,600	39,322,835
Total, 12 districts	7,475	1,785,791,171	107,147,470
Per cent., five districts	49	36.6	36.7

Nearly one-third of the entire capital and surplus in these five districts belongs to the 984 banks in the Chicago territory.

More than one-fourth of the 3664 national banks in the five middle western regions are grouped with the primary market at the southern head of the Great Lakes.

Nearly one-third of the 6% subscriptions to the reserve banks, or $12,664,100 out of $39,322,835 in the five districts, is centered in the new Chicago institution.

Taking these five districts as a unit, they contain 49% of all the 7475 assenting banks, have 36.6% of all the capital and surplus and they subscribe 36.7% of the banking capital towards the new system.

Chicago's selection as a reserve center was a foregone conclusion. Her location at the south end of lake navigation where 38 railroads terminate makes this the main distributive focus of the middle West. The city is terminus for 42% of the railway mileage of the United States. It has clearing yards for traffic with a capacity of 40,000 freight cars a day. The port has 96 miles of waterfront and 20 miles of docks and wharves, all of which go to make up the equipment of an emporium of trade whose annual financing runs up into billions.

The jobbing trade of Chicago was estimated by the Chicago Association of Commerce in 1912 at $2,000,000,000. In the manufacturing fields the packing-house industry alone in 1910 had a production of $400,000,000. Foundry products were figured at $105,-

000,000 and agricultural implements at $100,000,000. The annual output of iron and steel products was last year estimated at $222,000,000, made largely from iron ores brought by the lakes for a distance of 350 miles. The manufacturing output of all kinds, ascertained to be $1,300,000,000 in 1910, must by this time have increased to $1,500,000,000.

The total number of banks within the city itself is 175, including national, state and private. These have deposits exceeding $1,002,000,000 and the clearings in 1913 were $16,073,000,000. The total deposits of the Federal reserve district, of which Chicago is the center, were officially reported on March 4, 1914, at $1,300,691,995, making an average of $103 per capita. This applies to national banks alone. Within the past ten years capital invested and surplus accrued in national banks in the city increased 79%, although the number of national banks included in this count decreased from 12 to 9. Loans and discounts rose in this period between 1903 and 1913 from $181,416,000 to $329,024,000, an increase of $417,608,000, or 81%, coincident with an increase of 62% in individual deposits.

The states assigned to the Chicago district include Illinois and Iowa, rival leaders in corn production. The agricultural authorities of no other states have devoted more attention to the improvement of yields of that staple, and no other states have so large a production. In the three states of Indiana, Illinois and Iowa one-third of the total corn growth of the United States and one-fourth of the total production of the world were grown in 1912. Out of this yield of 1,057,000,000 bushels, approximately two-thirds were retained on the farms, mainly for the feeding of livestock destined for the markets of the cities of this district.

The northern half of the corn belt is assigned to the regional banking area lying between the western boundry of Ohio and the Missouri river. Here farm lands have value ranging from $100 to $300 an acre. Such breeding on an extensive scale is conducted all over this territory. The finest specimens of beef cattle, dairying establishments by the thousands, and the rearing of draught animals indicate the phases of the more advanced agriculture in which banking resources find intensive employment.

EIGHTH DISTRICT—ST. LOUIS.

This Regional Center Lies Nearest To Country's Center Of Population, In Heart Of Grain Belt.

Great River Port Serves Commercially Convenient Territory of 146,000 Square Miles, With 434 Assenting Institutions—Livestock Market Here has Handled 6,000,000 Head a Year—Hardware and Shoes.

In several respects the St. Louis district is one of the most satisfactory to the business interests concerned. Geographically it embraces only trade territory which is primarily tributary to this market. That is true both of the merchandising trades and of the grain and livestock movements. It is not unduly large, being the smallest west of the Mississippi. Its extreme limits are about 500 miles apart. It disregards state lines in favor of trade conditions. It includes all of Arkansas and parts of five other states. Twelve counties in the western part of Missouri are assigned to the Kansas City district. The major part of Missouri and adjacent sections of Illinois, Indiana, Kentucky, Tennessee and Mississippi go to make up an area of 146,474 square miles. This includes a population of 6,737,000 persons. Of all the regional reserve centers, St. Louis lies nearest to the country's center of population.

In the number of national banks figuring, this region stands near the foot of the column. Only 434 institutions had entered into the arrangement for the creation of a Federal Reserve Bank up to March 4, 1914. The only reserve bank with a smaller number of institutions is that at Atlanta with 372 banks. In the adjacent district of Chicago there are 984 banks, of Kansas City 835, and 687 for Minneapolis. Numerically viewed, St. Louis is among the smallest in membership, but this is to a great extent offset by compactness of business relations.

Restriction in territory shows itself not only in the smaller number of banks, but also in the size of the reserve bank as based on capital and surplus. The only other district whose banks have a smaller total than this are Atlanta and Minneapolis. From resources of $80,717,981 the regional bank gets a capital out of 6% subscription of $4,843,079, making St. Louis tenth in the investment scale of the twelve regional banks.

The commercial geography of the St. Louis district is unique. It includes the very heart of our greatest interior river basin. The Missouri river with its 3100 miles in length and the Ohio river, draining a rich area for a stretch of 950 miles, both empty into the Mississippi, which forms the great waterway artery of the St. Louis district for a distance of 800 miles between North and South.

Another feature of this district is its climatic position. Its northern half is so well adapted to the growth of the hardier cereals that both the wheat and the corn centers of the country lie within this area. The southern half contains much of the best cotton-growing country, including the long staple lands of the lower Mississippi between Cairo and Vicksburg. For this staple Memphis, to the south in the same district, is headquarters. Through the latter market much of the superior staple cotton taken by the Carolina and Georgia mills is marketed. At the eastern end lies Louisville. Its tobacco trade is among the largest of its kind.

A half dozen states grouped closely around St. Louis grow ordinarily a billion bushels of wheat and corn. Receipts of grain at St. Louis in 1902, when the corn crop of the Southwest was more nearly normal than in the following year a partial failure, were 80,000,000 bushels. The equipment of this terminal point includes 36 grain elevators with a terminal capacity exceeding 10,000,000 bushels. The flour mills there turn out 7500 bushels daily.

Among the livestock markets St. Louis ranks third in receipts, ranging from 1,000,000 to 1,500,000 head of cattle, or approximately half as large a trade as that at Chicago. Receipts of all kinds of stock have run as high as 6,000,000 head at St. Louis and shipments from one-third to a quarter as large as receipts. Taking receipts and shipments together this market does a traffic business of about 150,000 carloads of livestock a year.

Mineral resources, both developed and undeveloped, abound within the limits of the states included in this territory. The lead and zinc producing properties in Missouri and Arkansas are generally financed from this reserve center. Coal properties in the states of Missouri and Arkansas as well as in Oklahoma enjoy much of their development through St. Louis financial institutions. The same is true of the mineral oil industry of the Southwest, with which the regional center is connected by trunk line railway systems and pipe lines.

Coal traffic in this district, as reflected in the receipts at St. Louis, is almost entirely a rail movement. Within the past five years the yearly supply, derived mainly from mines within a short distance of the city on the Illinois side of the river, has ranged from 7,654,000 tons to 10,235,000 tons. These figures serve as an index to the in-

dustrial and other demands of a center of a district of nearly 7,000,000 people. In coal requirements St. Louis is estimated as ranking among western cities after Chicago and Detroit, and by some as next to Chicago. St. Louis is largely interested in the operation of the coal mines of southern Illinois and western Kentucky.

Although cotton is not largely handled by way of the St. Louis market, the growing and marketing of the crop in the more southern sections of the belt, both east and west of the Mississippi, is largely facilitated by advances in which St. Louis banks participate. In merchandising naturally the jobbing trade receives a high development where the produce of so rich a district is marketed. The sale of farm products on one of the most extensive scales is here repeated year after year, and these huge values are balanced mainly by merchandising movements in exchange.

In the central West St. Louis stands alone in the primacy of its manufacturing industries, its hardware distribution and production and its service as the supply market for mules for cotton-growing lands. The East St. Louis stockyards, where the Missouri draught animals are marketed, has its business connections with the regional reserve center across the river. Among other industries to which attention should be called are those of the manufacture of chemicals, the making of railway and street cars and tobacco and wood-working. The clothing and fur industries require large investment and working capital. This is North America's first fur trade center.

No part of the country occupies a more favorable position than this district in respect to railway facilities. The two states of Missouri and Arkansas have nearly 13,000 miles of railways. The network of lines running in all the main directions keeps this section in close commercial relations with the main points of importance in the central Mississippi valley. St. Louis has the advantage of a centralized railroad terminal to the substantial gain of commercial interests.

Regarded as a banking center, the regional home of the reserve bank has seven national banks, 44 state and trust companies and 59 private banks. St. Louis is one of the three central reserve cities of the country in the national banking system, sharing its position with New York and Chicago. It has one financial institution, a national bank, with a capital of $10,000,000, which is the only one exceeding that of the Federal Reserve Bank. Other cities within the district of importance in banking capacity are Little Rock, Memphis and Louisville, of which the last-named is a national bank reserve city. Taking the district as a whole it is estimated to have nearly 2500 banks of all kinds reporting to the Comptroller of the Currency.

NINTH DISTRICT—MINNEAPOLIS.

Regional Area Of 438,000 Square Miles Embraces Five States With 3901 Banks Between Lakes And Mountains.

Crop Season Among the Shortest Intensifies the Activities in Handling Season's Products from Agriculture, Dairying and Grazing, Lumbering and Mining Mark Districts—Spring Wheat and Flour.

From East to West the Minneapolis district stretches three-fourths of the way across the continent between the upper lakes and the Pacific. Between Sault Ste. Marie and the mountains in Montana, which form the western border of this region, is a distance of 1500 miles, greater than that from New York to Omaha. From North to South the Minneapolis district is approximately 225 miles, comprising in these five states an area of 438,000 square miles, or 23,000 miles more than the combined area of France and the German Empire in Europe.

These striking features belong to a district within which lies the world's chief center of wheat-flour production, three of the most important spring wheat states, one of the largest livestock and wool-producing areas on the continent, the second largest copper producing state, and the chief distributive gateway to and from the Northwest.

In the Minneapolis district large area is conjoined with the smallest population of any of the twelve reserve areas. Its 687 banks serve 5,725,000 people, contributing to the Federal Reserve Bank a subscription of $4,702,865. These figures are, of course, not a complete index of this district's banking resources. The five states have 3901 banks, of which 3214 are non-members of the reserve banking group.

The bank clearings of Minneapolis in 1913 were $1,312,000,000. Those of St. Paul, its twin neighbor, were $530,000,000, making $1,842,000,000 of clearings in both cities. This compares with such other clearing centers as Baltimore, Cincinnati, Cleveland and Los Angeles, among clearing points which have over $1,000,000,000 a year to handle and of which there are only fifteen in the country.

A feature of this district's banking is the small number of re-

serve cities under the national banking arrangement. West of Minneapolis and St. Paul, the only two reserve cities in the district, there is no other this side of Spokane, which is 2500 miles distant in the Pacific coast district. Out of 363 banks in the reserve cities' list there are eleven in these two reserve centers. Holdings of specie in Minneapolis banks were $5,529,585 on January 13. The only reserve centers where larger holdings were found west of the Mississippi were San Francisco, Los Angeles, Denver and Kansas City.

Banking service throughout this territory has to deal mainly with six leading branches of industry. These include agriculture, dairying and grazing; flour manufacture, lumbering, the oil-seed industry, and copper and iron ore mining. As a source of wealth the annual increment from the four states outside of Wisconsin from the hay and grain industry has a value of $450,000,000.

Climatic conditions have a controlling share in the relations of banking to the industries of this northern latitude. The killing frost limits throughout these states lie within the narrow period of four months, from May 20 to September 20, as a rule. On this account banks are required to subordinate everything else to the exigencies of the short season to an extent that is not known farther South.

The intensity of the productive period is thus greatly enhanced and the demand for credit and cash are concentrated accordingly, in both making and marketing products. This applies to the crops rather than to livestock. But in the marketing of both of these commodities the rush of traffic between the areas of production and the points of concentration is greatly intensified by the effort to move the season's crops as largely as possible before the severe winter weather sets in.

The three western states in this district are not largely supplied with banks and there are few large institutions. Montana, North Dakota and South Dakota together have only thirteen national banks whose loans and discounts exceed $1,000,000 each. The largest of these at Butte, Mont., had assets of this class amounting to $2,842,830 on August 9, 1913, and individual deposits of $4,650,693. Fargo in North Dakota leads with loans and discounts of $2,477,695. Other prominent points through which some characteristic product of the district is prominent in trade and banking are Billings and Great Falls in the Montana wool trade and in smelting operations, along with Helena, Miles City and Lewiston as general business centers. In North Dakota, Fargo and Grand Forks rank in this class of banks, and Lead in South Dakota. Pierre and Bismarck in the Dakotas are both prominent grain centers in the spring wheat territory. As a wool producer Montana has the largest number of

sheep of shearing age and its flocks totaling 4,300,000 head yield over 31,000,000 pounds of wool at a value little less than $12,000,000. On the average this state produced nearly 27% of the country's copper yield in the five years of 1908-12. The Dakotas produce wool totaling 5,000,000 pounds a year at a value of $2,000,000, but their eminence lies in grain and cattle.

Within the three states of Minnesota and the two Dakotas 80% of this country's spring wheat is grown. North Dakota is the largest single wheat producing state on the continent. Its yield in 1912 of 143,820,000 bushels combined with 52,185,000 in South Dakota, and 67,038,000 from Minnesota, made a grand total of 263,-043,000 bushels. This is an indication of the volume of traffic which railroads have to handle and the banks finance at as early a period as practicable after August harvesting and before winter interferes with the freedom of traffic.

The movement of produce is generally eastward to the great milling or meat-packing centers and to the ports of the lakes. The four northwestern states in 1913 produced grain and potatoes, amounting to 759,000,000 bushels of an estimated worth of $407,-413,000. Growth in the volume of business may be taken as a gauge of the necessity for banking expansion. In 1900 Minneapolis and Duluth received slightly more than 150,000,000 bushels of grain, compared with 337,000,000 bushels in 1912. Receipts at Minneapolis alone that year were worth $193,000,000 and the combined value of grain and flaxseed at Duluth and Minneapolis was $328,-783,000.

Fifty-one flour mills outside of Minneapolis, known as country mills, absorb enough wheat to produce 25,000 barrels of flour a day, running at 62% of capacity, resulting in a yearly output of 7,500,000 barrels. Minneapolis mills together with these fifty-one country mills in 1913 manufactured 25,173,725 barrels of flour with a total value of $96,918,841. Besides this the linseed oil industry represents a production value of $21,000,000. And the feedstuffs output is a factor in the district's dairying and livestock production, both of which are vitally identified with the banking facilities of these states.

Terminal facilities at the eastern end of this territory include fifty elevators at Minneapolis with a capacity of 38,550,000 bushels of grain. Duluth-Superior, the main receiving points at the upper lakes, have twenty-four elevators providing for 32,270,000 bushels. Together these two points can store 70,825,000 bushels of grain.

The purchasing power of these streams of crops and cattle and wool and mineral products makes the annual distribution of mer-

chandise one of the phenomenal phases of northwestern business. As the staples enter into the channels of commerce they create the return currents of banking credits and of manufactured commodities. It is this that gives to the Minneapolis-St. Paul gateway its prime importance in mercantile distribution. Minneapolis alone as a jobbing center during 1913 forwarded 160,000 cars of merchandise and St. Paul 85,000. Including agricultural implements and lumber and lumber products, the total number of forwardings and receipts for Minneapolis alone were 225,000 cars and 156,000 cars for St. Paul. The implement trade of Minneapolis is placed at $40,000,000 a year, and the annual shipments of the products of this industry alone comprise 25,000 carloads.

Financing the northwestern crops, its livestock production, its lumber industries and its milling operations constitutes the largest work of the banks in this district. As an indication of the size of this business Minneapolis banks last year paid grain drafts aggregating $217,909,000 and shipped $34,358,000 of currency. At the beginning of the crop movement the weekly clearings were $17,776,000 in August, 1913, and they rose to $37,616,000 in October.

Out of town checks handled by the banks of Minneapolis in 1913 aggregated $1,328,274,000. As a Federal reserve center the lines of business activity, especially in Minnesota and Wisconsin, radiate in all directions. For the Dakotas and Montana the transcontinental railway lines connect these states closely with their reserve center of commerce and credit resources. None of the regional centers is more intimately linked with its field than is Minneapolis, at which point 3329 northwestern banks carry reserve and exchange accounts.

TENTH DISTRICT—KANSAS CITY.

Beef Cattle Industry Of Southwest Source Of Immense Flotations Of Cattle Paper Through This Market.

Small National Banks and Numerous Reserve Cities Features of Banking Organization Under the National System—Industries and Trade in Which Kansas City Enjoys Primacy—Other Leading Financial Centers.

Four complete states and minor portions of three adjacent states are included in Federal Reserve District No. 10. Kansas and Nebraska are two of the most wonderful grain producers on the western continent. Two other states of Colorado and Wyoming are famous for their mineral and grazing wealth. This combination of agricultural, pastoral and mineral demands for the employment of capital and labor give to the states forming this group a complemental character as banking communities, each of which is at some stage of the year of special service to the others. Besides these four states, the western quarter of Missouri, including the Joplin zinc and lead districts and the St. Joseph packing center, the northern half of Oklahoma and the upper third of New Mexico belong to the reserve district of which Kansas City is the center.

Kansas City, the home of the reserve bank for a territory whose area is 509,649 square miles, stands within about 25 miles of the eastern limit of the district. Its selection was made on commercial and financial rather than on geographical grounds. Within the first few hundred miles of this center an elaborate network of transportation lines radiates. Beyond that the western border of Colorado is 770 miles from Kansas City, and from the center to the Yellowstone Park district in the northwestern corner of Wyoming is a distance of 850 miles in a straight line. This area is larger than the areas of the New York, the Philadelphia, the Richmond and the Atlanta districts combined.

In point of commercial equipment Kansas City has sixteen trunk line railroads and thirty-two subsidiaries. Both together contribute and take out on the average 260 passenger cars and 2000 cars of freight every twenty-four hours. The mail service of the most dis-

tant points slightly exceeds 1000 miles in length of run and thirty-six hours' time. But the great majority of places in its banking area lie within a radius of 400 miles. There are approximately 3000 banking towns in the district and the number of outside accounts carried approximates 5000 with Kansas City banks.

The Kansas City Clearing House, according to statements made before the Reserve Bank Organization Committee by the associated banks and trust companies, handles an average of 265,500 items daily. The banks of this market in their country collections deal directly with 3300 country banks within a radius of 120 miles, or a five hours' ride.

An index to the growth in banking operations of this territory may be found in the increase in the volume of bank clearings. In 1900 they were $775,265,000 and in 1913 they had grown to $2,850,-363,000, or more than trebling and not far from quadrupling in thirteen years. Since 1906 Kansas City increased its clearing 113% and from 1903 to 1913 as much as 165%.

Banking in this district deals primarily with the extractive industries, many of whose products are marketed seasonally. At this center thousands of farms and ranges, in the wide territory between the Missouri and the Rocky Mountains, empty their staples as into a funnel, mainly in a west to east movement. It is this that gives Kansas City a primacy of its own as a distributing point in the hay trade, in the corn and winter wheat market, in yellow pine lumber, in the livestock movements and in the shipping of agricultural implements as well as supplies of merchandise for farm, ranch and lumber and mining camps.

As a clearing point for stockers and feeders no other place equals the service of the Kansas City stockyards. In 1913 livestock from twenty-nine different states and from Mexico was marketed here to the value of $224,000,000, including approximately 7,500,000 head. Nearly 1,000,000 of cattle were shipped out for further feeding last year at a value of $50,000,000.

No other part of the world has shared so largely as this market and district in financing the species of commercial bills known throughout the stock-raising West as cattle paper. Within this market's tributary territory there are 11,000,000 head of beef cattle, or about 30% of the total in the United States. Out of 2,319,000 head of cattle received last year, 914,000 were shipped out to local and distant points. Besides these over 5,000,000 head of hogs and sheep were received in 1913.

The larger portion of all livestock receipts is absorbed in the vast packing-house industries. The meat packing industry here

ranks next to that of Chicago. The sale of products in 1913 amounted to $178,000,000 calling for 5,636,000 head of cattle, hogs and sheep. This still leaves within the Kansas City banking district a total number of cattle larger than the whole of Canada and as many as are found in England, Wales and Scotland combined.

As the leading winter wheat market in this country and the foremost exporting point, this regional center handles more than 80% of the grain to other countries by way of the gulf ports. Local elevators provide for 14,000,000 bushels, in the carrying of which the local bankers render a continuous service by means of advances on warehouse grain certificates. The movement of grain through this market ranges from about 50,000,000 to 75,000,000 bushels a year, not including the distribution of from 30,000,000 to 35,000,000 bushels financed through Kansas City but not shipped through that market. Quoting a trade estimate, "fully 100,000,000 bushels of grain paid for by Kansas City merchants is fully financed by Kansas City banks."

This banking territory, two thirds the size of Mexico, in the heart of the country, embraces some of the richest alluvial plains of the continent. It has 29,000 miles of railways, 935 assenting banks and a population of 6,307,000 inhabitants. The territory abounds in natural resources for the application of human labor and banking power. On the west lie the wool-producing territories with the choicest grazing in the long mountain valleys in the rearing and marketing of whose flocks the banks of this district render a constant service.

District No. 10 has twelve reserve cities with 58 national banks. Two of these have an outstanding circulation of $3,419,000 and $4,747,000 respectively with a third of $2,612,000. The two states of Colorado and New Mexico have together over $75,000,000 invested in the value of cattle and sheep, many of which are from 700 to 900 miles away from their main market.

Denver, the financial center of the Colorado-Wyoming end of the district, plays a prominent part in the development of the mountain states industries. Six of its national banks report loans and discounts amounting to $29,212,000 and individual deposits of $35,587,000. Omaha in the northeastern end utilizes even larger banking resources as measured by institutions and loans and discounts. Besides these Lincoln, South Omaha, Topeka, St. Joseph and Oklahoma City occupy the rank, as banking centers, of reserve cities in the national banking organization.

No estimates of the natural or institutional resources of this district would be complete without mention of the mineral oil and the

natural gas supplies which within recent years have brought immense wealth to their developers. In addition to these the zinc and lead smelting industry of western Missouri and eastern Kansas contributes more than half of the zinc production in the United States. The pipe line companies bring supplies of oil as far as 258 miles to Kansas City. The flour manufacturing industry of the territory has an annual output of 13,000,000 barrels valued at $58,000,000. The small flour mill, the small country town and the small national bank are features of this portion of the West. Next to Chicago this regional area has the largest number of assenting national banks in the country. Out of 423 national banks organized in these four states between March 14, 1900, and October 31, 1913, a total of 262, or 62%, belonged to the class with capital of $25,000 each.

Seasonal rotation in the employment of banking resources is probably as well realized in this district as in any other on account of the variety of its enterprises. "In the spring," according to the statement made at the hearings of the Organization Committee, "the livestock interests are using liberal sums in moving the cattle from the ranges into the fattening fields and pastures. In the early summer the wheat crop is moving, and in the latter summer and early fall the cotton from our southern territory. In the late fall and early winter there is a movement of cattle into feed lots, and throughout the winter until spring the corn and full fed livestock are coming to market. Through the entire year the coal, lead and zinc mines, and the almost unlimited oil production is constantly moving. By this rotation of business, while one section of the country is marketing its products freely, another section will be calling for funds."

ELEVENTH DISTRICT—DALLAS.

Regional Center With All-Year Round Cotton Banking, Trucking, Cattle And Merchandising.

Cotton Oil Mills and Lumber Production Have Received Large Developments in This Territory—Mines of New Mexico Figure in Natural Resources—Dallas Main Southwest Center of Interurban Railway Lines.

The Dallas Federal reserve district belongs to a group of four which, together, cover somewhat more than the western half of the United States. In area and in population the districts served through Dallas, Kansas City, Minneapolis and San Francisco fall into the same general class. There is no attempt at selection of reserve point with regard to territorial centrality. All of these reserve cities are located in that portion of the district which is economically most highly developed. Extent of service rather than equalizing of distances is the rule of arrangement.

The area of the Dallas district, embracing 404,826 square miles, is almost equal to that of the Richmond and Atlanta districts combined. But its population of 5,310,000 is barely one-third as large. It has 726 banks compared with 842 for the two districts mentioned. Excepting Kansas City district, the Dallas region has the largest number of assenting banks of the western group. It ranks ninth in capital as in population.

The subscription to the new bank of $5,520,000, makes it one of the smallest for a territory which includes all of Texas, the portion of Louisiana west of the Mississippi, five-sixths of New Mexico, the lower portion of Oklahoma and southeastern Arizona. Its principal cities are Galveston, Houston, Waco, Fort Worth, San Antonio, Austin and Shreveport, all leading cotton markets. McAlister, Okla.; Albuquerque, N. M., and Tucson, Ariz., are all representative of their states.

Banking facilities in the Dallas district are estimated to include 780 banks of all kinds, of which 726 are in the Federal reserve organization as national banks. Dallas itself has only five national banks, having gained but one during the past ten years, but its capital and surplus combined of $5,900,000 on August 9, 1913, increased

from $2,168,000 ten years before, or at the rate of 172%. Loans and discounts in the same decade rose 210% and individual deposits 220%. The three leading cities of Texas show growth of banking resources as follows in the same decade:

Dallas:	1903	1913	Inc.	Inc. %
Capital and surplus	$2,168,000	$5,900,000	$3,732,000	172
Loans and discounts	6,388,000	19,816,000	13,428,000	210
Individual deposits	5,915,000	18,918,000	13,003,000	220
Houston:				
Capital and surplus	2,350,000	7,050,000	4,700,000	200
Loans and discounts	6,923,000	25,612,000	18,689,000	270
Individual deposits	6,794,000	22,597,000	15,803,000	233
Fort Worth:				
Capital and surplus	1,865,000	4,950,000	3,085,000	165
Loans and discounts	4,803,000	15,507,000	10,704,000	223
Individual deposits	3,934,000	11,707,000	7,773,000	199

Agriculture, grazing, fruit and vegetable growing, cane sugar production, oil production and mining—these are the several leading sources of wealth in the annual production of district No. 11. Practically one-third of the cotton crop is produced within this area. Taking cotton and cotton-seed together the estimated income from this single source ranges according to prices and seasons from $250,000,000 to $350,000,000 a year. Banking operations in the staple ordinarily begin early in the calendar year and extend to the holidays at the close. The district is never so well supplied with funds of its own during much of the cotton producing season as to be independent of borrowing from the outside.

On the other hand, after sales of cotton have cleared the accounts of growers with merchants and banks, the accumulations have from three to six months of more or less inactivity. These idle deposits may seek investment in short-term paper, may drift to reserve centers as balances in correspondent banks to earn from two to three per cent., or the banks themselves may seek out other forms of loans in the grazing or in the lumbering industry, in both of which this district is a large and extensive producer.

Texas is the wintering ground for millions of livestock, including cattle and sheep, but especially cattle. These begin to move northward as soon as Kansas and Nebraska pastures are ready in the spring. The mountain states also draw heavily on Texas cattle. This breeding and feeding industry gives rise to much cattle paper which seeks wider markets in many cases through the banks of Dallas, Kansas City and St. Louis. Cattle financing is complemen-

tal in its relation to cotton growing in that the main demand in each case is not overlapping, but successive in their order.

Between the time of heavy demands for cotton production in the summer, and following the cattle movement northward, the early vegetable shipments occur, contributing the first main income in the calendar year's products. Lumbering, which is quite general throughout the south and east of the state, is more generally an autumn and winter campaign. Texas contains one of the finest areas of pine timber in the country.

The panhandle district of the northwest, long famous for grazing, is rapidly yielding to the inroads of settlers, where the production of grains and grasses are steadily enriching the productivity of the district.

All of these states are of note as sources of mineral supplies. New Mexico reports a production in 1912 of the precious and semi-precious metals valued at $8,528,000. In 1904 this total was less than $2,000,000. The state's coal production yielded 3,536,000 tons in 1912. Copper contributed over 34,000,000 pounds. A phenomenal increase is shown from barely 4,000,000 pounds in 1911, principally due to the output of the Chino Copper Co.

Oil and gas wells of Texas add $9,000,000 to the state's wealth a year. The petroleum area of 400 square miles produces 31,000 barrels daily, has 1800 miles of pipe line, and the state contains eight oil refineries. Exports, through Port Arthur and Galveston mainly, exceeded 136,000,000 gallons valued at $6,500,000.

The natural gas resources of Oklahoma are of enormous worth as a fuel in the production of light and power. The development of manufacturing industries, of municipal utilities and of interurban electrical lines is to a large extent the outcome of the presence of an economical fuel supply.

Dallas, the regional reserve city, is the most conspicuous focus in the evolution of this species of public utility of which there are some thirty lines in operation throughout the state with a track mileage of 650 miles or more, a capital invested of $33,000,000 and with more than 1000 cars in service.

These facilities together with the railway equipment to the district afford to the leading cities in all of these states main lines of travel and traffic.

Manufacturing industries based on the wealth of raw materials at hand afford numerous lines in which investment and working capital are in all year round demand. There are approximately 6200 cotton gins which operate for about three months during the picking season. Cotton-seed oil mills in the three cotton-growing states

in this district have 260 establishments consuming about 2,000,000 tons of cotton-seed. The period of operation is much longer in this case. Lumber mills at their best year of record in 1907 in Texas alone turned out 2,230,000,000 feet. The mills comprising more than 800 have an investment of $45,000,000. The state has fifteen mills with a capital of $2,229,000. The state of Texas consumes 200,000,000 bushels of corn a year and produces an average of about 140,000,000 bushels. It is dependent upon the outside states to supply its deficit; and Louisiana, within this banking district, has become a source of surplus corn for the feeding requirements of Texas livestock which consumes feedstuffs valued at $50,000,000 a year.

TWELFTH DISTRICT—SAN FRANCISCO.

Far Western Region Of 694,000 Square Miles Area Exactly The Size Of Turkish Empire In Asia.

Seven States Comprising This Banking Unit Include Country's Main Precious Metal Resources—Output of Five Metals in 1912 Was $197,135,000 in Value—Enormous Forestal Areas in California, Oregon, Washington.

Federal reserve districts cover larger areas as they extend West. Those along the Atlantic seaboard and in the north central states are small compared with the four westerly regions centering in Minneapolis, Kansas City, Dallas and San Francisco. The last-named of these has 694,000 square miles of territory. This is 50,000 square miles larger than the combined area of the first six districts beginning with Boston and ending with Atlanta. The San Francisco business area is exactly as large as that of the Turkish Empire in Asia. And its geographical position, topography, variety of climate and natural resources give it a truly imperial character as a field for banking service in the work of economic development.

National institutions assenting in the district up to March 4 were 514. There are six other districts which include a larger number of banks. In population it is among the smallest, the total being 5,389,000. But it ranks high in banking resources. The capital and surplus, on the basis of which the regional reserve bank is built, was $130,423,000 on the above date. It, therefore, ranks above any other district located west of the Mississippi. Its central bank is entitled to a capital of $7,825,000, making it sixth among the twelve regional banks in the capital subscribed.

These seven states of California, Oregon, Washington, Idaho, Nevada, Utah and Arizona comprise a banking unit different from any other into which the country is divided. In its history and evolution it has had a larger degree of isolation than any other. Chiefly on that account, it has worked out its financial agencies and methods on rather unique lines. Gold as a currency has for over 60 years played a much larger part throughout this territory than elsewhere in the United States.

This fact is evident from a comparison of the gold coin holdings of the fifty reserve cities. The nine San Francisco banks held on January 13, 1914, as much as 20% of the gold in coin form in 363

reserve city banks. How the regional center on the Pacific seaboard compares with other Federal reserve points in coin and specie holdings is shown below, excepting for Richmond and Atlanta:

	Gold Coin	Total Specie
Boston	$764,657	$28,037,482
New York	4,834,326	254,099,235
Philadelphia	2,329,499	39,203,151
Cleveland	1,993,662	7,805,166
Chicago	5,461,862	61,559,491
St. Louis	1,430,920	18,291,214
Minneapolis	2,346,699	5,529,585
Kansas City	1,384,042	7,229,391
Dallas	256,392	1,891,927
San Francisco	14,066,675	18,600,962

The development of the west coast began with gold as the primary object of mining enterprise, and that continues to be one main source of wealth. California now yields gold to the value of about $20,000,000 a year. Other mineral industries have their sources throughout the mountain states, including 20 copper smelting plants, producing nearly half of the country's output. But the most recent increase is in the oil-bearing properties of California. This has now become one of the world's main sources of supply. The state's production of 1910 was 77,697,000 barrels out of a total for the United States of 204,000,000 barrels. That of 1913 is estimated at 98,000,000 barrels for that state alone.

Between the Rocky Mountains and the Pacific seaboard, within which bounds these states lie, the precious metal and associated metals are most widely found. The gold and silver, according to the Geological Survey, produced in 1912 in this territory was valued at $69,129,000, of which $44,525,000 was the value of gold and $24,604,000 that of silver. California and Nevada lead all others in gold production, together contributing three-fourths of the yield of the district, while Nevada and Utah supply three-quarters of the silver output.

Taking the seven states together the output of the five metals including gold, silver, copper, lead and zinc shows a value for 1912 of $197,135,000 derived from 25,493,000 tons of ore mined from 2761 properties. Arizona alone, a state of which probably less is known than any in the Union, produces mineral wealth of these classes somewhat in excess of $67,000,000.

The district's wealth in forest ranks first in the United States. The wooded area of California is estimated at 28,000,000 acres, of which 24,000,000 are in national forest reserves, or nearly 80%.

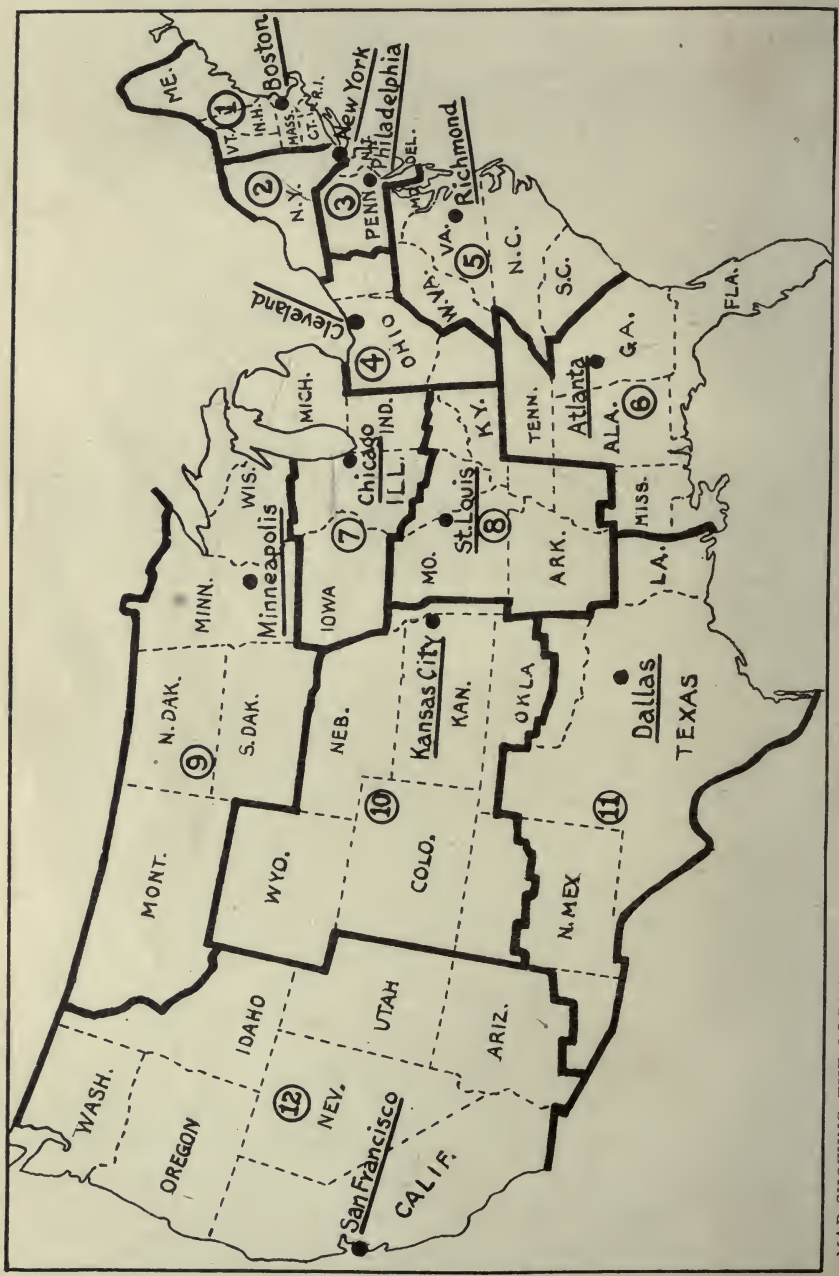
The famous redwood timbers on the northern coast of California comprise more than 1,000,000 acres from which about 400,000,000 feet are cut annually. Oregon's supply of standing timber is estimated at from 500 to 545 billion feet—about one-fifth of the nation's entire supply. Fifty billion to one hundred billion feet more are found in the southern part of Washington. Lumbering is the greatest of Oregon's industries and brings to the state an annual income of $30,000,000.

In the production of lumber, which is the Pacific coast's most widely distributed natural asset, the state of Washington stands first as a producer. This business turns out a product worth $42,000,000 on cars at the mills. The amount of standing timber in Washington, Oregon and Idaho is estimated at 1,068,000,000,000 feet.

The orcharding of this district ranges from the citrus fruits in the tropical climate of southern California to the apple orchards of the Hood River valley within sight of the perpetual snows of Mount Hood. The barley yields of Washington and Oregon have become well established in the yearly demands of European brewers. Last year three upper Pacific markets received 42,000 cars of wheat. The Orient depends more or less regularly on the wheat and flour of the west coast. The salmon pack of this district, embracing the Pacific Northwest, has been as high as $25,000,000 in value a season and finds a world-wide market. A single Portland financing company has $10,000,000 employed in loans in the cattle and sheep industries.

Throughout this territory, in practically every state, the irrigation of arid lands has reached its highest and most extensive development. Much of the United States Government's reclamation work, covering over 3,000,000 acres, lies in this regional area. California has 335 valley units in which 3,192,000 acres are irrigated and 9,699,000 acres are ultimately available for irrigation, including the Imperial valley with its incredible productiveness under an adequate water supply.

In the extent of its coast line the Pacific district stands quite unrivalled. Between San Diego and Seattle there is a length of ocean littoral of 1200 miles, reaching from the 33d to near the 49th degree of latitude. These shores are indented with such famous commercial roadsteads as the bays of San Diego, of San Francisco and Eureka in California; and Portland, Seattle, Tacoma and Olympia in Oregon and Washington. Back from the coast this banking district reaches from 400 to 800 miles, embracing vast intermountain plateaus in which such cities as Spokane, Boise City, Carson, Salt Lake and Phœnix are financial capitals of their respective business empires.



MAP SHOWING THE LOCATION OF THE TWELVE FEDERAL RESERVE BANKS AND THE BOUNDARIES OF THE TWELVE FEDERAL RESERVE DISTRICTS AS DETERMINED BY THE RESERVE BANK ORGANIZATION COMMITTEE.

BOUNDARIES OF THE FEDERAL RESERVE DISTRICTS.

As Established By The Organization Committee.

DISTRICT NO. 1.

The New England States: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut, with the city of Boston as the location of the Federal Reserve bank.

DISTRICT NO. 2.

The State of New York, with New York City as the location of the Federal Reserve bank.

DISTRICT NO. 3.

The States of New Jersey and Delaware and all that part of Pennsylvania located east of the western boundary of the following counties: McKean, Elk, Clearfield, Cambria, and Bedford, with the Federal Reserve bank in the city of Philadelphia.

DISTRICT NO. 4.

The State of Ohio; all that part of Pennsylvania lying west of district No. 3; the counties of Marshall, Ohio, Brooke, and Hancock, in the State of West Virginia; and all that part of the State of Kentucky located east of the western boundary of the following counties: Boone, Grant, Scott, Woodford, Jessamine, Garrard, Lincoln, Pulaski, and McCreary; with the city of Cleveland, Ohio, as the location of the Federal Reserve bank.

DISTRICT NO. 5.

The District of Columbia, and the States of Maryland, Virginia, North Carolina, South Carolina, and all of West Virginia except the counties of Marshall, Ohio, Brooke, and Hancock, with the Federal Reserve bank located in the city of Richmond, Va.

DISTRICT NO. 6.

The States of Alabama, Georgia, and Florida; all that part of Tennessee located east of the western boundary of the following counties: Stewart, Houston, Wayne, Humphreys, and Perry; all that part of Mississippi located south of the northern boundary of the following counties: Issaquena, Sharkey, Yazoo, Kemper, Madison, Leake, and Neshoba; and all of the southeastern part of Louisiana located east of the western boundary of the following parishes: Pointe Coupee, Iberville, Assumption, and Terrebonne, with the city of Atlanta, Ga., as the location of the Federal Reserve bank.

DISTRICT NO. 7.

The State of Iowa, all that part of Wisconsin located south of the northern boundary of the following counties: Vernon, Sauk, Columbia, Dodge, Washington, and Ozaukee; all of the southern peninsula of Michigan, viz., that part east of Lake Michigan; all that part of Illinois located north of a line forming the southern boundary of the following counties: Hancock, Schuyler, Cass, Sangamon, Christian, Shelby, Cumberland, and Clark; and all that part of Indiana north of a line forming the southern boundary of the following counties: Vigo, Clay, Owen, Monroe, Brown, Bartholomew, Jennings, Ripley, and Ohio, with the Federal Reserve bank located in the city of Chicago, Ill.

DISTRICT NO. 8.

The State of Arkansas, all that part of Missouri located east of the western boundary of the following counties; Harrison, Daveiss, Caldwell, Ray, Lafayette, Johnson, Henry, St. Clair, Cedar, Dade, Lawrence, and Barry; all that part of Illinois not included in district No. 7; all that part of Indiana not included in district No. 7; all that part of Kentucky not included in district No. 4; all that part of Tennessee not included in district No. 6; and all that part of Mississippi not included in district No. 6, with the city of St. Louis, Mo., as the location of the Federal Reserve bank.

DISTRICT NO. 9.

The States of Montana, North Dakota, South Dakota, Minnesota, all that part of Wisconsin not included in district No. 7, and all that part of Michigan not included in district No. 7, with the city of Minneapolis, Minn., as the location of the Federal Reserve bank.

DISTRICT NO. 10.

The States of Kansas, Nebraska, Colorado, and Wyoming, all that part of Missouri not included in district No. 8, all that part of Oklahoma north of a line forming the southern boundary of the following counties: Ellis, Dewey, Blaine, Canadian, Cleveland, Pottawatomie, Seminole, Okfuskee, McIntosh, Muskogee, and Sequoyah; and all that part of New Mexico north of a line forming the southern boundary of the following counties: McKinley, Sandoval, Santa Fe, San Miguel, and Union, with the city of Kansas City, Mo., as the location of the Federal Reserve bank.

DISTRICT NO. 11.

The State of Texas, all that part of New Mexico not included in district No. 10; all that part of Oklahoma not included in district No. 10; all that part of Louisiana not included in district No. 6; and the following counties in the State of Arizona: Pima, Graham, Greenlee, Cochise, and Santa Cruz, with the city of Dallas, Tex., as the location of the Federal Reserve bank.

DISTRICT NO. 12.

The States of California, Washington, Oregon, Idaho, Nevada, and Utah, and all that part of Arizona not included in district No. 11, with the city of San Francisco, Cal., as the location of the Federal Reserve bank.

TABLE.

Showing subscription to stock of Federal reserve banks by national banks with area and population of each district.

		Districts		National Banks, March 4, 1914		
District No.	Fed. Res. cities	Land area in sq. miles.	Population	Number of banks	Capital and surplus	6 per cent. subscription
1	Boston....	61,976	6,552,681	446	$165,529,010	$9,931,740
2	N. Y.....	47,654	9,113,614	478	343,693,437	20,621,606
3	Phila.....	40,527	7,932,065	800	216,340,213	12,980,412
4	Cleveland .	72,615	8,326,668	724	192,147,258	11,528,835
5	Richm'd ..	152,931	8,519,310	475	105,064,483	6,303,869
6	Atlanta...	232,349	8,660,575	372	77,356,913	4,641,416
7	Chicago ..	160,192	12,355,923	984	211,068,338	12,664,100
8	St. Louis..	194,947	8,740,582	434	80,717,981	4,843,079
9	Minn.....	444,226	5,188,730	687	78,381,081	4,702,865
10	Kan. City	444,444	5,638,895	835	93,065,912	5,583,956
11	Dallas....	438,177	5,853,919	726	92,003,123	5,520,187
12	San Fran .	683,852	5,089,304	514	130,423,422	7,825,405
	Total .	2,973,890	91,972,266	7,475	1,785,791,171	107,147,470

THE PERSONNEL.

FEDERAL RESERVE BOARD AND FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD.

EX-OFFICIO MEMBERS:

WILLIAM G. McADOO, Secretary of the Treasury, chairman.
JOHN SKELTON WILLIAMS, Comptroller of the Currency.

CHARLES S. HAMLIN, Boston, Mass., governor, two years.
FREDERIC A. DELANO, Chicago, Ill., vice-governor, six years.
PAUL M. WARBURG, New York, N. Y., four years.
W. P. G. HARDING, Birmingham, Ala., eight years.
ADOLPH C. MILLER, San Francisco, Cal., ten years.

H. PARKER WILLIS, Secretary.

FEDERAL RESERVE BANKS.

BOSTON—DISTRICT NO. 1.

Class "C"—Frederic H. Curtiss, Boston, Federal Reserve Agent and Chairman of Board of Directors. Walter S. Hackney, Providence, R. I., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. Allen Hollis, Concord, N. H., Director.

Class "A"—Thomas P. Beal, Boston, Mass., Group No. 1. C. G. Sanford, Bridgeport, Ct., Group No. 2. A. M. Heard, Manchester, N. H., Group No. 3.

Class "B"—Charles A. Morss, Boston, Mass., Group No. 1. E. R. Morse, Proctor, Vt., Group No. 2. Charles G. Washburn, Worcester, Mass., Group No. 3.

Governor, Alfred L. Aiken.

NEW YORK—DISTRICT NO. 2.

Class "C"—Pierre Jay, New York City, Federal Reserve Agent and Chairman of Board of Directors. Charles Starek, New York City, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. George F. Peabody, Lake George, N. Y., Director.

Class "A"—William Woodward, New York, N. Y., Group No. 1. Robert H. Treman, Ithaca, N. Y., Group No. 2. Franklin D. Locke, Buffalo, N. Y., Group No. 3.

Class "B"—H. R. Towne, New York, N. Y., Group No. 1. William B. Thompson, Yonkers, N. Y., Group No. 2. Leslie R. Palmer, Croton-on-Hudson, N. Y., Group No. 3.

Governor, Benjamin Strong Jr.

PHILADELPHIA—DISTRICT NO. 3.

Class "C"—Richard L. Austin, Philadelphia, Federal Reserve Agent and Chairman of Board of Directors. George M. LaMonte, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors, Bound Brook, N. J. George W. Norris, Philadelphia, Director.

Class "A"—Charles J. Rhoads, Philadelphia, Pa., Group No. 1. W. H. Peck, Scranton, Pa., Group No. 2. M. J. Murphy, Scranton, Pa., Group No. 3.

Class "B"—Alba B. Johnson, Philadelphia, Pa., Group No. 1. Edwin S. Stuart, Philadelphia, Pa., Group No. 2. George W. F. Gaunt, Mullica Hill, N. J., Group No. 3.

Governor, Charles J. Rhoads.

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CLEVELAND—DISTRICT NO. 4.

Class "C"—D. C. Wills, Bellevue, Pa., Federal Reserve Agent and Chairman of Board of Directors. Lyman H. Treadway, Cleveland, Ohio, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. H. P. Wolfe, Columbus, Ohio, Director.

Class "A"—Robert Wardrop, Pittsburgh, Pa., Group No 1. W. S. Rowe, Cincinnati, Ohio, Group No. 2. S. B. Rankin, South Charleston, Ohio, Group No. 3.

Class "B"—Thomas A. Combs, Lexington, Ky., Group No. 1. C. H. Bagley, Corry, Pa., Group No. 2. A. B. Patrick, Salyerville, Ky., Group No. 3.

Governor, E. R. Fancher.

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RICHMOND—DISTRICT NO. 5.

Class "C"—William Ingle, Baltimore, Federal Reserve Agent and Chairman of Board of Directors. James A. Moncure, Richmond, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. M. F. H. Gouverneur, Wilmington, N. C., Director.

Class "A"—Waldo Newcomer, Baltimore, Md., Group No. 1. John F. Bruton, Wilson, N. C., Group No. 2. Edwin Mann, Bluefield, W. Va., Group No. 3.

Class "B"—George J. Seay, Richmond, Va., Group No. 1. D. R. Coker, Hartsville, S. C., Group No. 2. J. F. Oyster, Washington, D. C., Group No. 3.

Governor, George J. Seay.

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ATLANTA—DISTRICT NO. 6.

Class "C"—M. B. Wellborn, Anniston, Ala., Federal Reserve Agent and Chairman of Board of Directors. Edward T. Brown, Atlanta, Ga., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. W. H. Kettig, Birmingham, Ala., Director.

Class "A"—L. P. Hillyer, Macon, Ga., Group No. 1. F. W. Fotte, Hattiesburg, Miss., Group No. 2. W. H. Toole, Winder, Ga., Group No. 3.

Class "B"—P. H. Saunders, New Orleans, La., Group No. 1. J. A. McCrary, Decatur, Ga., Group No. 2. W. H. Hartford, Nashville, Tenn., Group No. 3.

Governor, Joseph A. McCord.

CHICAGO—DISTRICT NO. 7.

Class "C"—C. H. Bosworth, Chicago, Ill., Federal Reserve Agent and Chairman of Board of Directors. W. L. McLallen, Columbia City, Ind., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. Edwin T. Meredith, Des Moines, Iowa, Director.

Class "A"—George M. Reynolds, Chicago, Ill., Group No. 1. J. B. Forgan, Chicago, Ill., Group No. 2. E. L. Johnson, Waterloo, Iowa, Group No. 3.

Class "B"—Henry B. Joy, Detroit, Mich., Group No. 1. M. B. Hutchison, Ottumwa, Iowa, Group No. 2. A. H. Vogel, Milwaukee, Wisconsin, Group No. 3.

Governor, M. B. McDougal.

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ST. LOUIS—DISTRICT NO. 8.

Class "C"—William McC. Martin, St. Louis, Federal Reserve Agent and Chairman of Board of Directors. Walter W. Smith, St. Louis, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. John Boehne, Evansville, Ind., Director.

Class "A"—Walker Hill, St. Louis, Mo., Group No. 1. F. O. Watts, St. Louis, Mo., Group No. 2. Oscar Fenley, Louisville, Ky., Group No. 3.

Class "B"—Murray Carlton, St. Louis, Mo., Group No. 1. W. B. Plunkett, Little Rock, Ark., Group No. 2. LeRoy Percy, Greenville, Miss., Group No. 3.

Governor, Rolla Wells.

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MINNEAPOLIS—DISTRICT NO. 9.

Class "C"—John F. Rich, Red Wing, Minn., Federal Reserve Agent and Chairman of Board of Directors. P. M. Kerst, St. Paul, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. John W. Black, Houghton, Mich., Director.

Class "A"—E. W. Decker, Minneapolis, Minn., Group No. 1. L. B. Hanna, Fargo, N. D., Group No. 2. J. C. Bassett, Aberdeen, S. D., Group No. 3.

Class "B"—F. R. Bigelow, St. Paul, Minn., Group No. 1. F. P. Hixon, LaCrosse, Wisconsin, Group No. 2. Norman B. Holter, Helena, Montana, Group No. 3.

Governor, Theodore Wold.

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KANSAS CITY—DISTRICT NO. 10.

Class "C"—J. Z. Miller, Kansas City, Mo., Federal Reserve Agent and Chairman of Board of Directors. A. E. Ramsey, Muskogee, Okla, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. R. H. Malone, Denver, Colorado, Director.

Class "A"—Gordon Jones, Denver, Colorado, Group No. 1. W. J. Bailey, Atchison, Kans., Group No. 2. C. E. Burnham, Norfolk, Nebraska, Group No. 3.

Class "B"—M. L. McClure, Kansas City, Mo., Group No. 1. T. C. Byrne, Omaha, Nebraska, Group No. 2. L. A. Wilson, El Reno, Oklahoma, Group No. 3.

Governor, Charles M. Sawyer.

DALLAS—DISTRICT NO. 11.

Class "C"—E. O. Tennison, Dallas, Federal Reserve Agent and Chairman of Board of Directors. W. F. McCaleb, San Antonio, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. Felix Martinez, El Paso, Texas, Director.

Class "A"—Oscar Wells, Houston, Texas, Group No. 1. E. K. Smith, Shreveport, La., Group No. 2. B. A. McKinney, Durant, Oklahoma, Group No. 3.

Class "B"—Marion Sansom, Fort Worth, Texas, Group No. 1. Frank Kell, Wichita Falls, Texas, Group No. 2. J. J. Culbertson, Paris, Texas, Group No. 3.

Governor, Oscar Wells.

SAN FRANCISCO—DISTRICT NO. 12.

Class "C"—John Perrin, Pasadena, Cal., Federal Reserve Agent and Chairman of Board of Directors. Claude Gatch, San Francisco, Cal., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors. Charles E. Peabody, Seattle, Wash., Director.

Class "A"—C. K. McIntosh, San Francisco, Cal., Group No. 1. James K. Lynch, San Francisco, Cal., Group No. 2. Alden Anderson, Sacramento, Cal., Group No. 3.

Class "B"—A. B. C. Dohrman, San Francisco, Cal., Group No. 1. J. A. McGregor, San Francisco, Cal., Group No. 2. Elmer H. Cox, Madera, Cal., Group No. 3.

Governor, Archibald Kains.

PART III.

STATUTES.

THE FEDERAL RESERVE ACT.

[PUBLIC—No. 43—63D CONGRESS.]
[H. R. 7837.]

An Act To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of ¶ 1
the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word ¶ 2
shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking associa- ¶ 3
tion" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS.

SEC. 2. As soon as practicable, the Secretary of the Treasury, ¶ 4
the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be cotermin-

ous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ ¶ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization com- ¶ mittee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held ¶ individually responsible, equally and ratably, and not one for another, for all contracts, debts and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its acceptance of the ¶

terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

¶ 9 Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

¶ 10 Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

¶ 11 Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

¶ 12 No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than $25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

¶ 13 Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them be, in the judgment of the organization committee, insufficient to

provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to ¶ 14
voting power.

The Federal Reserve Board is hereby empowered to adopt ¶ 15
and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a ¶ 16
subscribed capital less than $4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES.

SEC. 3. Each Federal reserve bank shall establish branch banks ¶ 17
within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

FEDERAL RESERVE BANKS.

SEC. 4. When the organization committee shall have es- ¶ 18
tablished Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by ¶ 19
this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificates, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged be- ¶ 20
fore a judge of some court of record or notary public; and shall be, together with the ackowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of ¶ 21
the Currency as aforesaid, the said Federal reserve bank shall be-

come a body corporate and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal. ¶ 22

Second. To have succession for a period of twenty years ¶ 23
from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts. ¶ 24

Fourth. To sue and be sued, complain and defend, in ¶ 25
any court of law or equity.

Fifth. To appoint by its board of directors, such officers ¶ 26
and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not ¶ 27
inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly ¶ 28
authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth. Upon deposit with the Treasurer of the United ¶ 29
States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business ¶ 30
except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the ¶ 31
supervision and control of a board of directors.

The board of directors shall perform the duties usually ap- ¶ 32
pertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly ¶ 33

and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter ¶ 34
specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen ¶ 35
by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of ¶ 36
their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be desig- ¶ 37
nated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member ¶ 38
of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or em- ¶ 39
ployee of any bank.

No director of class C shall be an officer, director, employee, ¶ 40
or stockholder of any bank.

Directors of class A and class B shall be chosen in the follow- ¶ 41
ing manner:

The chairman of the board of directors of the Federal reserve ¶ 42
bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of ¶ 43
each member bank in the district it shall elect by ballot a district

reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

¶ 44 Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

¶ 45 Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

¶ 46 Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

¶ 47 Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain under regulations to be established by the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative

for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall receive, in addi- ¶ 48
tion to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organiz- ¶ 49
ing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each ¶ 50
Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

SEC. 5. The capital stock of each Federal reserve bank shall be ¶ 51
divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or

surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

¶ 52 SEC. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency

showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SEC. 7. After all necessary expenses of a Federal reserve ¶ 53
bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

The net earnings derived by the United States from Federal ¶ 54
reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and sur- ¶ 55
plus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

SEC. 8. Section fifty-one hundred and fifty-four, United States ¶ 56
Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the ¶ 57
United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency, be converted into a national banking association, with any name approved by the Comptroller of the Currency:

Provided, however, That said conversion shall not be in contra- ¶ 58
vention of the State law. In such case articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or

convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.

SEC. 9. Any bank incorporated by special law of any State, ¶ 59
or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board ¶ 60
shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve

Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking Act.

¶ 61 Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

¶ 62 Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

¶ 63 If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD.

SEC. 10. A Federal Reserve Board is hereby created which ¶ 64
shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of $12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of $7000 annually for his services as a member of said Board.

The members of said Board, the Secretary of the Treasury, ¶ 65
the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice-governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have power to levy semi- ¶ 66
annually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half

year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

¶ 67 The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

¶ 68 The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.

¶ 69 Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

¶ 70 The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

¶ 71 Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall per-

form his duties under the general directions of the Secretary of the Treasury.

SEC. 11. The Federal Reserve Board shall be authorized and ¶ 72
empowered:

(a) To examine at its discretion the accounts, books and affairs ¶ 73
of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five mem- ¶ 74
bers of the Reserve Board, to require Federal reserve banks to re-discount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from ¶ 75
time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the ¶ 76
charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and cen- ¶ 77
tral reserve cities under existing law in which national banking as-

sociations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal ¶ 78
reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets ¶ 79
upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this ¶ 80
Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regula- ¶ 81
tions for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve ¶ 82
banks.

(k) To grant by special permit to national banks applying there- ¶ 83
for, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks, or ¶ 84
other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

FEDERAL ADVISORY COUNCIL.

Sec. 12. There is hereby created a Federal Advisory Coun- ¶ 85
cil, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors

shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or ¶ 86
through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, re-discount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS.

SEC. 13. Any Federal reserve bank may receive from any ¶ 87
of its member banks, and from the United States, deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Upon the indorsement of any of its member banks, with a ¶ 88
waiver of demand, notice and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills

of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on livestock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

¶ 89 Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the re-discounts are made.

¶ 90 The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

¶ 91 Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months' sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

¶ 92 Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

The re-discount by any Federal reserve bank of any bills ¶ 93
receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

OPEN-MARKET OPERATIONS.

SEC. 14. Any Federal reserve bank may, under rules and ¶ 94
regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for re-discount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power: ¶ 95

(a) To deal in gold coin and bullion at home or abroad, to make ¶ 96
loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the ¶ 97
United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without ¶ 98
its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish, from time to time, subject to review and deter- ¶ 99
mination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other Federal reserve banks for ¶ 100
exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries

wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.

SEC. 15. The moneys held in the general fund of the Treasury, ¶ 101
except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal sav- ¶ 102
ings, or any government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: *Provided, however,* That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES.

SEC. 16. Federal reserve notes, to be issued at the discre- ¶ 103
tion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local ¶ 104
Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral

security thus offered shall be notes and bills, accepted for re-discount under the provisions of section thirteen of this Act, and the Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

¶ 10. Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasury, otherwise than for redemption, may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

¶ 10 The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the

Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board, and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

¶ 107 Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing, with the Federal reserve agent, its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

¶ 108 The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

¶ 109 Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

¶ 110 In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $5, $10, $20, $50,

$100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited ¶ 111
in the Treasury, or in the sub-treasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller ¶ 112
of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, and so forth, ¶ 113
and regulations relating to such examination of plates, dies, and so forth, of national bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds ¶ 114
of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however,* That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit at par ¶ 115
from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other

Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

The Federal Reserve Board shall make and promulgate ¶ 116
from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

SEC. 17. So much of the provisions of section fifty-one hun- ¶ 117
dred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking associations shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds is hereby repealed.

REFUNDING BONDS.

SEC. 18. After two years from the passage of this Act, and ¶ 118
at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, ¶ 119
furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed $25,000,000 of such bonds in any one year, and which amount shall

include bonds acquired under section four of this Act by the Federal reserve bank.

Provided further, That the Federal Reserve Board shall allot ¶ 120
to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so ¶ 121
sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall ¶ 122
be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of ¶ 123
bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by ¶ 124
the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided,* That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treas-

ury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amonut of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

¶ 125 For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe, in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

¶ 126 Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES.

¶ 127 *SEC. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

¶ 128 When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a

*As amended August 15, 1914. Old matter repealed in [ ]. New matter in *italics*.

Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

(a) A bank not in a reserve or central reserve city as now or here- ¶ 129
after defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date ¶ 130
five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve ¶ 131
months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of ¶ 132
the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than ¶ 133
those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve city, as now or hereafter defined, shall ¶ 134
hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date, six- ¶ 135
fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve ¶ 136
months after the date aforesaid, at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of ¶ 137
the reserves may be held in its own vaults, or in the Federal reserve bank or in national banks in [reserve or] central reserve cities, as now defined by law.

After said thirty-six months' period all of said reserves, except ¶ 138
those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter de- ¶ 139
fined, shall hold and maintain a reserve equal to eighteen per centum

of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults, six-eighteenths thereof. ¶ 140

In the Federal reserve bank, seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member ¶ 141 banks as reserves not exceeding one-half of each instalment, eligible paper as described in section [fourteen] *thirteen* properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required *or permitted* ¶ 142 by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company *or with a national bank*, such reserve deposits so kept in such State bank, trust company, *or national bank* shall be construed within the meaning of this section as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situated. Except as thus provided, no member bank shall keep on deposit with any non-member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a non-member bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

The reserve carried by a member bank with a Federal ¶ 143 reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however*, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this Act, the net ¶ 144 balance of amounts due to and from other banks shall be taken as the basis for ascertaining the *bank* deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental ¶ 145 United States may remain non-member banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become

member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act.

SEC. 20. So much of sections two and three of the Act of June ¶ 146
twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

BANK EXAMINATIONS.

SEC. 21. Section fifty-two hundred and forty, United States ¶ 147
Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the ¶ 148
Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of ¶ 149
the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the ¶ 150
Comptroller of the Currency, every Federal reserve bank may, with the approavl of the Federal reserve agent or the Federal Reserve

Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other ¶ 151
than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, ¶ 152
order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

SEC. 22. No member bank or any officer, director, or em- ¶ 153
ployee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5000, or both; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national bank examiner. No national bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

Other than the usual salary or director's fee paid to any ¶ 154
officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank. No examiner, public or private, shall disclose the names of borrowers

or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine of not exceeding $5000 or by imprisonment not exceeding one year, or both.

Except as provided in existing laws, this provision shall not ¶ 155
take effect until sixty days after the passage of this Act.

SEC. 23. The stockholders of every national banking associa- ¶ 156
tion shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

LOANS ON FARM LANDS.

SEC. 24. Any national banking association not situated in a ¶ 157
central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time ¶ 158
to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES.

SEC. 25. Any national banking association possessing a capital ¶ 159
and surplus of $1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on, and the amount of capital set aside for the conduct of its foreign business. The Federal Reserve Board shall have power to approve or to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate, or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority ¶ 160
to establish foreign branches shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

SEC. 26. All provisions of law inconsistent with or superseded ¶ 161
by any of the provisions of this Act are to that extent and to that extent only hereby repealed: *Provided*, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain

gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

*SEC. 27. The provisions of the Act of May thirtieth, nine- ¶ 162
teen hundred and eight authorizing national currency associations, the issue of additional national bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby re-enacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however*, That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes ¶ 163
secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes: *Provided further, That whenever in his judgment he may deem it desirable, the Secretary of the Treasury shall have power to suspend the limitations imposed by section one and section three of the Act referred to in this section, which prescribe that such additional circulation secured otherwise than by bonds of the United States shall be issued only to national banks having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of the capital stock of such banks and to suspend also the conditions and limitations of section five of said Act except that no bank shall be permitted to issue circulating notes in excess of one hundred and twenty-five per centum of its unimpaired capital and surplus. He shall require each bank and currency association to maintain on deposit in the Treasury of the United States a sum in gold sufficient in his judgment for the redemption of such notes, but in no event less than five per centum. He may permit national banks,*

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*As amended August 4, 1914. New matter in *italics*.

during the period for which such provisions are suspended, to issue additional circulation under the terms and conditions of the Act referred to as herein amended: Provided further, That the Secretary of the Treasury in his discretion, is further authorized to extend the benefits of this Act to all qualified State banks and trust companies, which have joined the Federal reserve system or which may contract to join within fifteen days after the passage of this Act.

¶ 164 SEC. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and re-enacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

¶ 165 SEC. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

¶ 166 SEC. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, December 23, 1913.

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OTHER STATUTES.

Referred To In Federal Reserve Act.

THE ALDRICH–VREELAND ACT.

Act May 30, 1908.

An Act Authorizing National Currency Associations, the Issue of Additional National Bank Circulation, and Creating a National Monetary Commission.

FORMATION OF NATIONAL CURRENCY ASSOCIATIONS. CONDITIONS UNDER WHICH BANKS BELONGING TO NATIONAL CURRENCY ASSOCIATIONS MAY TAKE OUT ADDITIONAL CIRCULATION.

Be it enacted, etc., That national banking associations, each having an unimpaired capital and a surplus of not less than twenty per centum, not less than ten in number, having an aggregate capital and surplus of at least five millions of dollars, may form voluntary associations to be designated as national currency associations. The banks uniting to form such association shall, by their presidents or vice-presidents, acting under authority from the board of directors, make and file with the Secretary of the Treasury a certificate setting forth the names of the banks composing the association, the principal place of business of the association, and the name of the association, which name shall be subject to the approval of the Secretary of the Treasury. Upon the filing of such certificate the associated banks therein named shall become a body corporate, and by the name so designated and approved may sue and be sued and exercise the powers of a body corporate for the purposes hereinafter mentioned: Provided, that not more than one such national currency association shall be formed in any city: Provided further, That the several members of such national currency association shall be taken as nearly as conveniently may be, from a territory composed of a State or part of a State, or contiguous parts of one or more States: And provided further, that any national bank in such city or territory, having the qualifications herein prescribed for membership in such national currency association, shall, upon its application to and upon the approval of the Secretary of the Treasury, be admitted to membership in a national currency association for that city or territory and upon such admission shall be deemed and held a part of the body corporate, and as such entitled to all the rights and privileges and subject to all the liabilities of an original member: And provided further, That each national currency association shall be composed exclusively of banks not members of any other national currency association.

The dissolution, voluntary or otherwise, of any bank in such association shall not affect the corporate existence of the association

unless there shall then remain less than the minimum number of ten banks: Provided, however, That the reduction of the number of said banks below the minimum of ten shall not affect the existence of the corporation with respect to the assertion of all rights in favor of or against such association. The affairs of the association shall be managed by a board consisting of one representative from each bank. By-laws for the government of the association shall be made by the board, subject to the approval of the Secretary of the Treasury. A president, vice-president, secretary, treasurer, and an executive committee of not less than five members, shall be elected by the board. The powers of such board, except in the election of officers and making of by-laws, may be exercised through its executive committee.

The national currency association herein provided for shall have and exercise any and all powers necessary to carry out the purposes of this section, namely, to render available, under the direction and control of the Secretary of the Treasury, as a basis for additional circulation any securities, including commercial paper, held by a national banking association. For the purpose of obtaining such additional circulation, any bank belonging to any national currency association, having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of its capital stock, and which has its capital unimpaired and a surplus of not less than twenty per centum, may deposit with and transfer to the association, in trust for the United States, for the purpose hereinafter provided, such of the securities above mentioned as may be satisfactory to the board of the association. The officers of the association may thereupon, in behalf of such bank, make application to the Comptroller of the Currency for an issue of additional circulating notes to an amount not exceeding seventy-five per centum of the cash value of the securities of commercial paper so deposited. The Comptroller of the Currency shall immediately transmit such application to the Secretary of the Treasury with such recommendation as he thinks proper, and if, in the judgment of the Secretary of the Treasury, business conditions in the locality demand additional circulation, and if he be satisfied with the character and value of the securities proposed and that a lien in favor of the United States on the securities so deposited and on the assets of the banks composing the association will be amply sufficient for the protection of the United States, he may direct an issue of additional circulating notes to the association, on behalf of such bank, to an amount in his discretion, not, however, exceeding seventy-five per centum of the cash value of the securities so deposited: Provided, That upon the deposit of any of the State, city, town, county, or other municipal bonds, of a character described in section three of this Act, circulating notes may be issued to the extent of not exceeding ninety per centum of the market value of such bonds so deposited: And provided further, That no national banking association shall be authorized in any event to issue circulating notes based on commercial paper in excess of thirty per centum of its unimpaired capital and surplus. The term "commercial paper" shall be held to include only notes representing actual commercial transactions, which when

accepted by the association shall bear the names of at least two responsible parties and have not exceeding four months to run.

The banks and the assets of all banks belonging to the association shall be jointly and severally liable to the United States for the redemption of such additional circulation; and to secure such liability the lien created by section fifty-two hundred and thirty of the Revised Statutes shall extend to and cover the assets of all banks belonging to the association, and to the securities deposited by the banks with the association pursuant to the provisions of this Act: but as between the several banks composing such association each bank shall be liable only in the proportion that its capital and surplus bears to the aggregate capital and surplus of all such banks. The association may, at any time, require of any of its constituent banks a deposit of additional securities or commercial paper, or an exchange of the securities already on deposit, to secure such additional circulation; and in case of the failure of such bank to make such deposit or exchange, the association may, after ten days' notice to the bank, sell the securities and paper already in its hands at public sale, and deposit the proceeds with the Treasurer of the United States as a fund for the redemption of such additional circulation. If such fund be insufficient for that purpose the association may recover from the bank the amount of the deficiency by suit in the circuit court of the United States, and shall have the benefit of the lien herein before provided for in favor of the United States upon the assets of such bank. The association or the Secretary of the Treasury may permit or require the withdrawal of any such securities or commercial paper and the substitution of other securities or commercial paper of equal value therefor.

REDEMPTION FUND BELOW REQUIREMENTS. DUTY OF TREASURER OF UNITED STATES.

SEC. 2. That whenever any bank belonging to a national currency association shall fail to preserve or make good its redemption fund in the Treasury of the United States, required by section three of the Act of June twentieth, eighteen hundred and seventy-four, chapter three hundred and forty-three and the provisions of this Act, the Treasurer of the United States shall notify such national currency association to make good such redemption fund, and upon the failure of such national currency association to make good such fund, the Treasurer of the United States may, in his discretion, apply so much of the redemption fund belonging to the other banks composing such national currency association as may be necessary for that purpose; and such national currency association may, after five days' notice to such bank, proceed to sell at public sale the securities deposited by such bank with the association pursuant to the provisions of section one of this Act, and deposit the proceeds with the Treasurer of the United States as a fund for the redemption of the additional circulation taken out by such bank under this act.

WHAT NATIONAL BANKS MAY APPLY FOR AUTHORITY TO ISSUE ADDITIONAL CIRCULATION ON BONDS OTHER THAN UNITED STATES BONDS. WHAT BONDS WILL BE ACCEPTED FOR SUCH ADDITIONAL CIRCULATION.

SEC. 3. That any national banking association which has circulating notes outstanding, secured by the deposit of United States bonds to an amount of not less than forty per centum of its capital stock, and which has a surplus of not less than twenty per centum, may make application to the Comptroller of the Currency for authority to issue additional circulating notes to be secured by the deposit of bonds other than bonds of the United States. The Comptroller of the Currency shall transmit immediately the application, with his recommendation, to the Secretary of the Treasury, who shall, if in his judgment business conditions in the locality demand additional circulation, approve the same and shall determine the time of issue and fix the amount, within the limitations herein imposed, of the additional circulating notes to be issued. Whenever after receiving notice of such approval any such association shall deposit with the Treasurer or any assistant treasurer of the United States such of the bonds described in this section as shall be approved in character and amount by the Treasurer of the United States and the Secretary of the Treasury, it shall be entitled to receive, upon the order of the Comptroller of the Currency, circulating notes in blank, registered and countersigned as provided by law, not exceeding in amount ninety per centum of the market value, but not in excess of the par value of any bonds so deposited, such market value to be ascertained and determined under the direction of the Secretary of the Treasury.

The Treasurer of the United States, with the approval of the Secretary of the Treasury, shall accept as security for the additional circulating notes provided for in this section, bonds or other interest-bearing obligations of any State of the United States, or any legally authorized bonds issued by any city, town, county, or other legally constituted municipality or district in the United States, which has been in existence for a period of ten years, and which for a period of ten years previous to such deposit has not defaulted in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it, and whose net funded indebtedness does not exceed ten per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes. The Treasurer of the United States, with the approval of the Secretary of the Treasury, shall accept, for the purpose of this section, securities herein enumerated in such proportions as he may from time to time determine, and he may with such approval at any time require the deposit of additional securities, or require any association to change the character of the securities already on deposit.

LEGAL TITLE OF BONDS DEPOSITED TO SECURE ADDITIONAL CIRCULATION. ASSIGNMENT OF BONDS BY TREASURER TO BE COUNTERSIGNED BY THE COMPTROLLER OF THE CURRENCY.

SEC. 4. That the legal title of all bonds, whether coupon or registered, deposited to secure circulating notes issued in accordance with the terms of section three of this Act shall be transferred to the Treasurer of the United States in trust for the association depositing them, under regulations to be prescribed by the Secretary of the Treasury. A receipt shall be given to the association by the Treasurer or any assistant treasurer of the United States, stating that such bond is held in trust for the association on whose behalf the transfer is made, and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bond by the Treasurer shall be deemed valid unless countersigned by the Comptroller of the Currency. The provisions of sections fifty-one hundred and sixty-three, fifty-one hundred and sixty-four, fifty-one hundred and sixty-five, fifty-one hundred and sixty-six, and fifty-one hundred and sixty-seven, and sections fifty-two hundred and twenty-four to fifty-two hundred and thirty-four, inclusive, of the Revised Statutes respecting United States bonds deposited to secure circulating notes shall, except as herein modified, be applicable to all bonds deposited under the terms of section three of this Act.

ADDITIONAL CIRCULATION, HOW TREATED. LIMIT TO AMOUNT OF CIRCULATION ISSUED TO EACH BANK. LIMIT TO TOTAL AMOUNT OUTSTANDING UNDER THIS ACT.

SEC. 5. That the additional circulating notes issued under this Act shall be used, held, and treated in the same way as circulating notes of national banking associations heretofore issued and secured by a deposit of United States bonds, and shall be subject to all the provisions of law affecting such notes except as herein expressly modified; Provided, That the total amount of circulating notes outstanding of any national banking association, including notes secured by United States bonds as now provided by law, and notes secured otherwise than by deposit of such bonds, shall not at any time exceed the amount of its unimpaired capital and surplus; And provided further, That there shall not be outstanding at any time circulating notes issued under the provisions of this Act to an amount of more than five hundred millions of dollars.

AMOUNT OF REDEMPTION FUND.

SEC. 6. That whenever and so long as any national banking association has outstanding any of the additional circulating notes authorized to be issued by the provisions of this Act it shall keep on deposit in the Treasury of the United States in addition to the redemption fund required by section three of the Act of June twentieth, eighteen hundred and seventy-four, an additional sum equal to five

per centum of such additional circulation at any time outstanding, such additional five per centum to be treated, held and used in all respects in the same manner as the original redemption fund provided for by said section three of the Act of June twentieth, eighteen hundred and seventy-four.

EQUITABLE DISTRIBUTION OF NOTES.

SEC. 7. In order that the distribution of notes to be issued under the provisions of this Act shall be made as equitable as practicable between the various sections of the country, the Secretary of the Treasury shall not approve applications from associations in any State in excess of the amount to which such State would be entitled of the additional notes herein authorized on the basis of the proportion which the unimpaired capital and surplus of the national banking associations of such State bears to the total amount of unimpaired capital and surplus of the national banking associations of the United States: Provided, however, That in case the applications from associations in any State shall not be equal to the amount which the associations of such State would be entitled to under this method of distribution, the Secretary of the Treasury may, in his discretion, to meet an emergency, assign the amount not thus applied for to any applying association or associations in States in the same section of the country.

SECRETARY OF THE TREASURY TO FURNISH INFORMATION AS TO THE VALUE AND CHARACTER OF SECURITIES.

SEC. 8. That it shall be the duty of the Secretary of the Treasury to obtain information with reference to the value and character of the securities authorized to be accepted under the provisions of this Act, and he shall from time to time furnish information to national banking associations as to such securities as would be acceptable under the provisions of this Act.

TAXES PAYABLE TO THE UNITED STATES.

SEC. 9. That section fifty-two hundred and fourteen of the Revised Statutes, as amended, be further amended to read as follows:

"SEC. 5214. National banking associations having on deposit bonds of the United States, bearing interest at the rate of two per centum per annum, including the bonds issued for the construction of the Panama Canal, under the provisions of section eight of 'An Act to provide for the construction of a canal connecting the waters of the Atlantic and Pacific Oceans,' approved June twenty-eighth, nineteen hundred and two, to secure its circulating notes, shall pay to the Treasurer of the United States, in the months of January and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds; and such associations having on deposit bonds of the United States bearing interest at a rate higher

than two per centum per annum shall pay a tax of one-half of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds. [National banking associations having circulating notes secured otherwise than by bonds of the United States shall pay for the first month a tax at the rate of five per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax of one per centum per annum for each month until a tax of ten per centum per annum is reached, and thereafter such tax of ten per centum per annum upon the average amount of such notes.]* Every national banking association having outstanding circulating notes secured by a deposit of other securities than United States bonds shall make monthly returns, under oath of its president or cashier, to the Treasurer of the United States, in such form as the Treasurer may prescribe, of the average monthly amount of its notes so secured in circulation; and it shall be the duty of the Comptroller of the Currency to cause such reports of notes in circulation to be verified by examination of the banks' records. The taxes received on circulating notes secured otherwise than by bonds of the United States shall be paid into the Division of Redemption of the Treasury and credited and added to the reserve fund held for the redemption of United States and other notes."

WITHDRAWAL OF CIRCULATING NOTES ON DEPOSIT OF LAWFUL MONEY, AND WITHDRAWAL OF BONDS. NOT MORE THAN NINE MILLIONS TO BE DEPOSITED DURING ANY CALENDAR MONTH. WITHDRAWAL OF ADDITIONAL CIRCULATION ON DEPOSIT OF LAWFUL MONEY ON NATIONAL BANK NOTES.

SEC. 10. That section nine of the Act approved July twelfth, eighteen hundred and eighty-two, as amended by the Act approved March fourth, nineteen hundred and seven, be further amended to read as follows:

"SEC. 9. That any national banking association desiring to withdraw its circulating notes, secured by deposit of United States bonds in the manner provided in Section four of the Act approved June twentieth, eighteen hundred and seventy-four is hereby authorized for that purpose to deposit lawful money with the Treasurer of the United States and, with the consent of the Comptroller of the Currency and the approval of the Secretary of the Treasury, to withdraw a proportionate amount of bonds held as security for

*Amended by the Federal Reserve Act, Sec. 27, to read:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such a tax of six per centum per annum upon the average amount of such notes.

its circulating notes in the order of such deposits: Provided, That not more than nine millions of dollars of lawful money shall be so deposited during any calendar month for this purpose.

"Any national banking association desiring to withdraw any of its circulating notes, secured by the deposit of securities other than bonds of the United States, may make such withdrawal at any time in like manner and effect by the deposit of lawful money, or national bank notes with the Treasurer of the United States, and upon such deposit a proportionate share of the securities so deposited may be withdrawn: Provided, That the deposits under this section to retire notes secured by the deposit of securities other than bonds of the United States shall not be covered into the Treasury, as required by section six of an Act entitled 'An Act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes,' approved July fourteenth, eighteen hundred and ninety, but shall be retained in the Treasury for the purpose of redeeming the notes of the bank making such deposit."

PRINTING, DENOMINATION, AND FORM OF THE CIRCULATING NOTES.

SEC. 11. That section fifty-one hundred and seventy-two of the Revised Statutes be, and the same is hereby, amended to read as follows:

"SEC. 5172. In order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall state upon their face that they are secured by United States bonds or other securities, certified by the written or engraved signatures of the Treasurer and Register and by the imprint of the seal of the Treasury. They shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signature of the president or vice-president and cashier. The Comptroller of the Currency, acting under the direction of the Secretary of the Treasury, shall as soon as practicable cause to be prepared circulating notes in blank, registered and countersigned, as provided by law, to an amount equal to fifty per centum of the capital stock of each national banking association; such notes to be deposited in the Treasury or in the sub-treasury of the United States nearest the place of business of each association, and to be held for such association, subject to the order of the Comptroller of the Currency, for their delivery as provided by law: Provided, That the Comptroller of the Currency may issue national bank notes of the present form until plates can be prepared and circulating notes issued as above provided; Provided, however, That

in no event shall bank notes of the present form be issued to any bank as additional circulation provided for by this Act."

CIRCULATING NOTES TO BE REDEEMED IN LAWFUL MONEY OF THE UNITED STATES.

SEC. 12. That circulating notes of national banking associations, when presented to the Treasury for redemption, as provided in section three of the Act approved June twentieth, eighteen hundred and seventy-four, shall be redeemed in lawful money of the United States.

ALL ACTS OF THE COMPTROLLER OF THE CURRENCY AND TREASURER OF THE UNITED STATES UNDER THIS ACT TO BE APPROVED BY THE SECRETARY OF THE TREASURY.

SEC. 13. That all acts and orders of the Comptroller of the Currency and the Treasurer of the United States authorized by this Act shall have the approval of the Secretary of the Treasury who shall have power, also, to make any such rules and regulations and exercise such control over the organization and management of national currency associations as may be necessary to carry out the purposes of this Act.

NO RESERVE NEED BE HELD AGAINST DEPOSITS OF PUBLIC MONEY.

SEC. 14. That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, with reference to the reserves of national banking associations, shall not apply to deposits of public moneys by the United States in designated depositaries.

INTEREST ON PUBLIC DEPOSITS.

SEC. 15. That all national banking associations designated as regular depositaries of public money shall pay upon all special and additional deposits made by the Secretary of the Treasury in such depositaries, and all such associations designated as temporary depositaries of public money shall pay upon all sums of public money deposited in such associations interest at such rate as the Secretary of the Treasury may prescribe, not less, however, than one per centum per annum upon the average monthly amount of such deposits: Provided, however, That nothing contained in this Act shall be construed to change or modify the obligation of any association or any of its officers for the safe-keeping of public money: Provided further, That the rate of interest charged upon such deposits shall be equal and uniform throughout the United States.

EXPENSES OF ACT.

SEC. 16. That a sum sufficient to carry out the purposes of the preceding sections of this Act is hereby appropriated out of any money in the Treasury not otherwise appropriated.

[Sections 17, 18 and 19, following, were repealed by Chapter 36, Statutes at Large, 1911.]

[SEC. 17. That a Commission is hereby created to be called the "National Monetary Commission," to be composed of nine members of the Senate, to be appointed by the Presiding Officer thereof, and nine members of the House of Representatives, to be appointed by the Speaker thereof; and any vacancy on the Commission shall be filled in the same manner as the original appointment.

SEC. 18. That it shall be the duty of this Commission to inquire into and report to Congress at the earliest date practicable, what changes are necessary or desirable in the monetary system of the United States or in the laws relating to banking and currency, and for this purpose they are authorized to sit during the sessions or recess of Congress, at such times and places as they may deem desirable, to send for persons and papers, to administer oaths, to summons and compel the attendance of witnesses, and to employ a disbursing officer and such secretaries, experts, stenographers, messengers, and other assistants as shall be necessary to carry out the purposes for which said Commission was created. The Commission shall have the power through subcommittee or otherwise, to examine witnesses and to make such investigations and examinations, in this or other countries, of the subjects committed to their charge as they shall deem necessary.

SEC. 19. That a sum sufficient to carry out the purposes of sections seventeen and eighteen of this Act, and to pay the necessary expenses of the Commission, and its members, is hereby appropriated, out of any money in the Treasury not otherwise appropriated. Said appropriation shall be immediately available and shall be paid out on the audit and order of the chairman or acting chairman of said Commission, which audit and order shall be conclusive and binding upon all Departments as to the correctness of the accounts of such Commission.]

(The following paragraph was added by Act of March 4, 1909.)

That the members of the National Monetary Commission, who were appointed on the thirtieth day of May, nineteen hundred and eight, under the provisions of section seventeen of the Act entitled "An Act to amend the national banking laws," approved May thirtieth, nineteen hundred and eight, shall continue to constitute the National Monetary Commission until the final report of said commission shall be made to Congress; and said National Monetary Commission are authorized to pay to such of its members as are not at the time in the public service and receiving a salary from the Government, a salary equal to that to which said members would be entitled if they were members of the Senate or House of Representatives. [All Acts and parts of Acts inconsistent with this provision are hereby repealed.]

SEC. 20. That this Act shall expire by limitation on the thirtieth day of June, nineteen hundred and fourteen. [Extended by Federal Reserve Act to June 30, 1915.]

CURRENCY ACT.

Act March 14, 1900.

An Act to Define and Fix the Standard of Value, to Maintain the Parity of all Forms of Money Issued or Coined by the United States, to Refund the Public Debt, and for Other Purposes.

GOLD DOLLAR DECLARED TO BE STANDARD UNIT OF VALUE.

Be it enacted, etc., That the dollar consisting of twenty-five and eight-tenths grains of gold nine-tenths fine, as established by section thirty-five hundred and eleven of the Revised Statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity.

SECRETARY OF TREASURY TO SET APART AND MAINTAIN A GOLD RESERVE OF ONE HUNDRED AND FIFTY MILLION DOLLARS IN GOLD COIN AND BULLION FOR THE REDEMPTION OF UNITED STATES NOTES AND NOTES ISSUED UNDER ACT OF JULY 14, 1890. MAY SELL BONDS TO REPLENISH RESERVE.

SEC. 2. That United States notes, and Treasury notes issued under the Act of July fourteenth, eighteen hundred and ninety, when presented to the Treasury for redemption, shall be redeemed in gold coin of the standard fixed in the first section of this Act, and in order to secure the prompt and certain redemption of such notes as herein provided it shall be the duty of the Secretary of the Treasury to set apart in the Treasury a reserve fund of one hundred and fifty million dollars in gold coin and bullion, which fund shall be used for such redemption purposes only, and whenever and as often as any of said notes shall be redeemed from said fund it shall be the duty of the Secretary of the Treasury to use said notes so redeemed to restore and maintain such reserve fund in the manner following, to wit: First, by exchanging the notes so redeemed for any gold coin in the general fund of the Treasury; second, by accepting deposits of gold coin at the Treasury or at any subtreasury in exchange for the United States notes so redeemed; third, by procuring gold coin by the use of said notes, in accordance with the provisions of section thirty-seven hundred of the Revised Statutes of the United States. If the Secretary of the Treasury is unable to restore and maintain the gold coin, in the reserve fund by the foregoing methods, and the amount of such gold coin and bullion in said fund shall at any time fall below one hundred million dollars, then it shall be his duty to restore the same to the maximum sum of one hundred and fifty million dollars by borrowing money on the credit of the United States, and for the debt thus incurred to issue and sell coupon or registered bonds of the United States, in such form as he may prescribe, in denominations of fifty dollars or any multiple thereof, bearing interest at the rate of

not exceeding three per centum per annum, payable quarterly, such bonds to be payable at the pleasure of the United States after one year from the date of their issue, and to be payable, principal and interest, in gold coin of the present standard value, and to be exempt from the payment of all taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority; and the gold coin received from the sale of said bonds shall first be covered into the general fund of the Treasury and then exchanged, in the manner hereinbefore provided, for an equal amount of the notes redeemed and held for exchange, and the Secretary of the Treasury may, in his discretion, use said notes in exchange for gold, or to purchase or redeem any bonds of the United States, or for any other lawful purpose the public interests may require, except that they shall not be used to meet deficiencies in the current revenues. That United States notes when redeemed in accordance with the provisions of this section shall be reissued, but shall be held in the reserve fund until exchanged for gold, as herein provided; and the gold coin and bullion in the reserve fund, together with the redeemed notes held for use as provided in this section, shall at no time exceed the maximum sum of one hundred and fifty million dollars.

SILVER DOLLAR TO REMAIN LEGAL TENDER.

SEC. 3. That nothing contained in this Act shall be construed to affect the legal-tender quality as now provided by law of the silver dollar, or of any other money coined or issued by the United States.

DIVISIONS OF ISSUE AND REDEMPTION ESTABLISHED.

SEC. 4. That there be established in the Treasury Department, as a part of the office of the Treasurer of the United States, divisions to be designated and known as the division of issue and the division of redemption, to which shall be assigned, respectively, under such regulations as the Secretary of the Treasury may approve, all records and accounts relating to the issue and redemption of United States notes, gold certificates, silver certificates, and currency certificates. There shall be transferred from the accounts of the general fund of the Treasury of the United States, and taken up on the books of said divisions, respectively, accounts relating to the reserve fund for the redemption of United States notes and Treasury notes, the gold coin held against outstanding gold certificates, the United States notes held against outstanding currency certificates, and the silver dollars held against outstanding silver certificates, and each of the funds represented by these accounts shall be used for the redemption of the notes and certificates for which they are respectively pledged, and shall be used for no other purpose, the same being held as trust funds.

WHEN SILVER DOLLARS ARE COINED FROM BULLION PURCHASED UNDER ACT OF JULY 14, 1890, AN EQUAL AMOUNT OF TREASURY NOTES TO BE CANCELED AND SILVER CERTIFICATES ISSUED.

SEC. 5. That it shall be the duty of the Secretary of the Treasury, as fast as standard silver dollars are coined under the provisions of the Acts of July fourteenth, eighteen hundred and ninety, and June thirteenth, eighteen hundred and ninety-eight, from bullion purchased under the Act of July fourteenth, eighteen hundred and ninety, to retire and cancel an equal amount of Treasury notes whenever received into the Treasury, either by exchange in accordance with the provisions of this Act or in the ordinary course of business, and upon the cancellation of Treasury notes silver certificates shall be issued against the silver dollars so coined.

ISSUE OF GOLD CERTIFICATES.

SEC. 6. (As amended by Chapter 190, Statutes at Large, 1911.) That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin with the Treasurer, or any assistant treasurer of the United States, in sums of not less than twenty dollars, and to issue gold certificates therefor in denominations of not less than ten dollars, and the coin so deposited shall be retained in the Treasury and held for the payment of such certificates on demand, and used for no other purpose. Such certificates shall be receivable for customs, taxes, and all public dues, and when so received may be reissued, and when held by any national banking association may be counted as a part of its lawful reserve: *Provided*, That whenever and so long as the gold coin and bullion held in the reserve fund in the Treasury for the redemption of United States notes and Treasury notes shall fall and remain below one hundred million dollars the authority to issue certificates as herein provided shall be suspended: *and provided further*, That whenever and so long as the aggregate amount of United States notes and silver certificates in the general fund of the Treasury shall exceed sixty million dollars the Secretary of the Treasury may, in his discretion, suspend the issue of the certificates herein provided for: *and provided further*, That of the amount of such outstanding certificates one-fourth at least shall be in denominations of fifty dollars or less: *and provided further*, That the Secretary of the Treasury may, in his discretion, issue such certificates in denominations of ten thousand dollars, payable to order: *and provided further*, That the Secretary of the Treasury may, in his discretion, receive, with the assistant treasurer in New York and the assistant treasurer in San Francisco, deposits of foreign gold coin at their bullion value in amounts of not less than one thousand dollars in value and issue gold certificates therefor of the description herein authorized: *and provided further*, That the Secretary of the Treasury may, in his discretion, receive, with the Treasurer or any assistant treasurer of the United States, deposits of gold bullion bearing the stamp of the coinage mints of the United States, or the assay office in New York, certifying their weight, fine-

ness, and value, in amounts of not less than one thousand dollars in value, and issue gold certificates therefor of the description herein authorized. But the amount of gold bullion and foreign coin so held shall not at any time exceed one-third of the total amount of gold certificates at such time outstanding. And section fifty-one hundred and ninety-three of the Revised Statutes of the United States is hereby repealed.

ISSUE OF SILVER CERTIFICATES.

SEC. 7. That hereafter silver certificates shall be issued only of denominations of ten dollars and under, except that not exceeding in the aggregate ten per centum of the total volume of said certificates, in the discretion of the Secretary of the Treasury, may be issued in denominations of twenty dollars, fifty dollars, and one hundred dollars; and silver certificates of higher denomination than ten dollars, except as herein provided, shall, whenever received at the Treasury or redeemed, be retired and canceled, and certificates of denominations of ten dollars or less shall be substituted therefor, and after such substitution in whole or in part, a like volume of United States notes of less denomination than ten dollars shall from time to time be retired and canceled, and notes of denominations of ten dollars and upward shall be reissued in substitution therefor, with like qualities and restrictions as those retired and canceled.

SUBSIDIARY SILVER COINAGE.

SEC. 8. That the Secretary of the Treasury is hereby authorized to use, at his discretion, any silver bullion in the Treasury of the United States purchased under the Act of July fourteenth, eighteen hundred and ninety, for coinage into such denominations of subsidiary silver coin as may be necessary to meet the public requirements for such coin: *Provided*, That the amount of subsidiary silver coin outstanding shall not at any time exceed in the aggregate one hundred millions of dollars. Whenever any silver bullion purchased under the Act of July fourteenth, eighteen hundred and ninety, shall be used in the coinage of subsidiary silver coin, an amount of Treasury notes issued under said Act equal to the cost of the bullion contained in such coin shall be canceled and not reissued.

RECOINAGE OF UNCURRENT SUBSIDIARY SILVER COIN.

SEC. 9. That the Secretary of the Treasury is hereby authorized and directed to cause all worn and uncurrent subsidiary silver coin of the United States now in the Treasury, and hereafter received, to be recoined, and to reimburse the Treasurer of the United States for the difference between the nominal or face value of such coin and the amount the same will produce in new coin from any moneys in the Treasury not otherwise appropriated.

REQUISITE AMOUNT OF CAPITAL.

SEC. 10. No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that banks with a capital of not less than twenty-five thousand dollars may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than two hundred thousand dollars.

REFUNDING OF UNITED STATES BONDS.

SEC. 11. That the Secretary of the Treasury is hereby authorized to receive at the Treasury any of the outstanding bonds of the United States bearing interest at five per centum per annum, payable February first, nineteen hundred and four, and any bonds of the United States bearing interest at four per centum per annum, payable July first, nineteen hundred and seven, and any bonds of the United States bearing interest at three per centum per annum, payable August first, nineteen hundred and eight, and to issue in exchange therefor an equal amount of coupon or registered bonds of the United States in such form as he may prescribe, in denominations of fifty dollars or any multiple thereof, bearing interest at the rate of two per centum per annum, payable quarterly, such bonds to be payable at the pleasure of the United States after thirty years from the date of their issue, and said bonds to be payable, principal and interest, in gold coin of the present standard value, and to be exempt from the payment of all taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority: *Provided*, That such outstanding bonds may be received in exchange at a valuation not greater than their present worth to yield an income of two and one-quarter per centum per annum; and in consideration of the reduction of interest effected the Secretary of the Treasury is authorized to pay to the holders of the outstanding bonds surrendered for exchange, out of any money in the Treasury not otherwise appropriated, a sum not greater than the difference between their present worth, computed as aforesaid, and their par value, and the payments to be made hereunder shall be held to be payments on account of the sinking fund created by section thirty-six hundred and ninety-four of the Revised Statutes; *and provided further*, That the two per centum bonds to be issued under the provisions of this Act shall be issued at not less than par, and they shall be numbered consecutively in the order of their issue, and when payment is made the last numbers issued shall be first paid, and this order shall be followed until all the bonds are paid, and whenever any of the outstanding bonds are called for payment interest thereon shall cease three months after such call; and there

is hereby appropriated out of any money in the Treasury not otherwise appropriated, to effect the exchanges of bonds provided for in this Act, a sum not exceeding one-fifteenth of one per centum of the face value of said bonds, to pay the expense of preparing and issuing the same and other expenses incident thereto.

DELIVERY OF CIRCULATING NOTES.

SEC. 12. That upon the deposit with the Treasurer of the United States, by any national banking association, of any bonds of the United States in the manner provided by existing law, such association shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited; and any national banking association now having bonds on deposit for the security of circulating notes, and upon which an amount of circulating notes has been issued less than the par value of the bonds, shall be entitled, upon due application to the Comptroller of the Currency, to receive additional circulating notes in blank to an amount which will increase the circulating notes held by such association to the par value of the bonds deposited, such additional notes to be held and treated in the same way as circulating notes of national banking associations heretofore issued, and subject to all the provisions of law affecting such notes: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of section fifty-one hundred and sixty-seven of the Revised Statutes of the United States, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security: *And provided further*, That the circulating notes furnished to national banking associations under the provisions of this Act shall be of the denominations prescribed by law, except that no national banking association shall, after the passage of this Act, be entitled to receive from the Comptroller of the Currency, or to issue or reissue or place in circulation, more than one-third in amount of its circulating notes of the denomination of five dollars: *And provided further*, That the total amount of such notes issued to any such association may equal at any time but shall not exceed the amount at such time of its capital stock actually paid in: *And provided further*, That under regulations to be prescribed by the Secretary of the Treasury any national banking association may substitute the two per centum bonds issued under the provisions of this Act for any of the bonds deposited with the Treasurer to secure circulation or to secure deposits of public money; and so much of an Act entitled "An Act to enable national banking associations to extend their corporate existence, and for other purposes," approved July twelfth, eighteen hundred and eighty-two, as prohibits any national bank which makes any deposit of lawful money in order to withdraw its circulating notes from receiving any increase of its circulation for

the period of six months from the time it made such deposit of lawful money for the purpose aforesaid, is hereby repealed, and all other Acts or parts of Acts inconsistent with the provisions of this section are hereby repealed.

TAX ON CIRCULATING NOTES.

SEC. 13. That every national banking association having on deposit, as provided by law, bonds of the United States bearing interest at the rate of two per centum per annum, issued under the provisions of this Act, to secure its circulating notes, shall pay to the Treasurer of the United States, in the months of January and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of said two per centum bonds; and such taxes shall be in lieu of existing taxes on its notes in circulation imposed by section fifty-two hundred and fourteen of the Revised Statutes.

INTERNATIONAL BIMETALLISM.

SEC. 14. That the provisions of this Act are not intended to preclude the accomplishment of international bimetallism whenever conditions shall make it expedient and practicable to secure the same by concurrent action of the leading commercial nations of the world and at a ratio which shall insure permanence of relative value between gold and silver.

SECTIONS OF REVISED STATUTES.

Referred To In Federal Reserve Act.

Sec. 5153 (As prior to May 30, 1908).

NATIONAL BANKING ASSOCIATIONS TO BE DEPOSITARIES OF PUBLIC MONEYS.

All national banking associations, designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require the associations thus designated to give satisfactory security, by the deposit of United States bonds and otherwise, for the safe keeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Government: Provided, That the Secretary shall, on or before the first of July of each year, make a public statement of the securities required during that year for such deposits. And every association so designated as receiver or depositary of the public money shall take and receive at par all of the national currency bills, by whatever association issued, which have been paid into the Government for internal revenue, or for loans or stocks: Provided, That the Secretary of the Treasury shall distribute the deposits herein provided for, as far as practicable, equitably between the different States and sections.

Sec. 5172 (As prior to May 30, 1908).

PRINTING, DENOMINATIONS, AND FORM OF THE CIRCULATING NOTES.

In order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of circulating notes in blank, of the denominations of one dollar, two dollars, three dollars, five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, and one thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall express upon their face that they are secured

by United States bonds, deposited with the Treasurer of the United States, by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury; and shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signatures of the president or vice-president and cashier; and shall bear such devices and such other statements, and shall be in such form, as the Secretary of the Treasury shall, by regulation, direct.

That the Comptroller of the Currency shall, under such rules and regulations as the Secretary of the Treasury may prescribe, cause the charter-numbers of the association to be printed upon all national-bank notes which may be hereafter issued by him.

That the national-bank notes shall be printed under the direction of the Secretary of the Treasury, and upon the distinctive or special paper which has been, or may hereafter be, adopted by him for printing United States notes.

Sec. 5191 (As prior to May 30, 1908).

RESERVE CITIES AND RESERVE REQUIREMENTS.

Every national banking association in either of the following cities: Albany, Baltimore, Boston, Cincinnati, Chicago, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, New York, Philadelphia, Pittsburgh, Saint Louis, San Francisco, and Washington, shall at all times have on hand, in lawful money of the United States, an amount equal to at least twenty-five per centum of the aggregate amount of its deposits; and every other association shall at all times have on hand, in lawful money of the United States, an amount equal to at least fifteen per centum of the aggregate amount of its deposits. Whenever the lawful money of any association in any of the cities named shall be below the amount of twenty-five per centum of its deposits, and whenever the lawful money of any other association shall be below fifteen per centum of its deposits, such association shall not increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividend of its profits until the required proportion, between the aggregate amount of its deposits and its lawful money of the United States has been restored. And the Comptroller of the Currency may notify any association, whose lawful-money reserve shall be below the amount above required to be kept on hand, to make good such reserve; and if such association shall fail for thirty days thereafter so to make good its reserve of lawful money, the Comptroller may, with the concurrence of the Secretary of the Treasury, appoint a receiver to wind up the business of the association, as provided in section fifty-two hundred and thirty-four.

Sec. 5214 (As prior to May 30, 1908).

DUTIES PAYABLE TO THE UNITED STATES.

In lieu of all existing taxes, every association shall pay to the Treasurer of the United States, in the months of January and July, a duty of one-half of one per centum each half-year upon the average amount of its notes in circulation, and a duty of one-quarter of one per centum each half-year upon the average amount of its deposits, and a duty of one-quarter of one per centum each half-year on the average amount of its capital stock, beyond the amount invested in United States Bonds.[1]

Sec. 5174.

EXAMINATION OF PLATES AND DIES.

The Comptroller of the Currency shall cause to be examined, each year, the plates, dies, bed-pieces, and other material from which the national bank circulation is printed, in whole or in part, and file in his office annually a correct list of the same. Such material as shall have been used in the printing of the notes of associations which are in liquidation, or have closed business, shall be destroyed under such regulations as shall be prescribed by the Comptroller of the Currency and approved by the Secretary of the Treasury. The expenses of any such examination or destruction shall be paid out of any appropriation made by Congress for the special examination of national banks and bank note plates.

Sec. 5192.

WHAT MAY BE COUNTED AS RESERVE.

Three-fifths of the reserve of fifteen per centum required by the preceding section[2] to be kept, may consist of balances due to an association, available for the redemption of its circulating notes, from associations approved by the Comptroller of the Currency, organized under the act of June three, eighteen hundred and sixty-four, or under this Title, and doing business in the cities of Albany, Baltimore, Boston, Charleston, Chicago, Cincinnati, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, New York, Philadelphia, Pittsburgh, Richmond, Saint Louis, San Francisco, and Washington. Clearing-house certificates, representing specie or lawful money specially deposited for the purpose, of any clearing-house association, shall also be deemed to be lawful money in the possession of any association belonging to such clearing-house, holding and owning such certificate, within the preceding section.

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[1] Sec. 5191, supra p. ?

[2] See Sect. 13, Act March 14, 1900, supra p. ?

Act June 20, 1874.

"LAWFUL-MONEY RESERVE" TO BE DETERMINED BY DEPOSITS.

SEC. 2. That section thirty-one [Sec. 5191 R. S.] of "The National Bank Act" be so amended that the several associations therein provided for shall not hereafter be required to keep on hand any amount of money whatever, by reason of the amount of their respective circulations; but the moneys required by said section to be kept at all times on hand shall be determined by the amount of deposits in all respect, as provided for in the said section.

PROVISIONS FOR REDEEMING CIRCULATION. FIVE PER CENT. REDEMPTION FUND.

SEC. 3. That every association organized, or to be organized, under the provisions of the said act, and of the several acts amendatory thereof, shall at all times keep and have on deposit in the Treasury of the United States, in lawful money of the United States, a sum equal to five per centum of its circulation, to be held and used for the redemption of such circulation; which sum shall be counted as a part of its lawful reserve, as provided in section two of this act; and when the circulating notes of any such association, assorted or unassorted, shall be presented for redemption, in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in lawful money of the United States. All notes so redeemed shall be charged by the Treasurer of the United States to the respective associations issuing the same, and he shall notify them severally, on the first day of each month, or oftener, at his discretion, of the amount of such redemptions; and whenever such redemptions for any association shall amount to the sum of five hundred dollars, such association so notified shall forthwith deposit with the Treasurer of the United States a sum in United States notes equal to the amount of its circulating-notes so redeemed. And all notes of national banks worn, defaced, mutilated, or otherwise unfit for circulation shall, when received by any assistant treasurer or at any designated depository of the United States, be forwarded to the Treasurer of the United States for redemption as provided herein. And when such redemptions have been so reimbursed, the circulating-notes so redeemed shall be forwarded to the respective associations by which they were issued; but if any of such notes are worn, mutilated, defaced, or rendered otherwise unfit for use, they shall be forwarded to the Comptroller of the Currency and destroyed and replaced as now provided by law: Provided, That each of said associations shall reimburse to the Treasury the charges for transportation, and the costs for assorting such notes; and the associations hereafter organized shall also severally reimburse to the Treasury the cost of engraving such plates as shall be ordered by each association respectively; and the amount assessed upon each association shall be in proportion to the circulation redeemed, and be charged to the fund on deposit with the Treasurer: And provided further, That so much of section thirty-two of said national bank act requiring or permitting the redemption of its circulat-

ing notes elsewhere than at its own counter, except as provided for in this section, is hereby repealed.

Sec. 5197.

LIMITATION UPON RATE OF INTEREST WHICH MAY BE TAKEN.

Any association may take, receive, and charge on any loan or discount made, or upon any note, bill of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State, Territory or District where the bank is located, and no more, except that where by the laws of any State a different rate is limited for banks of issue organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this Title. When no rate is fixed by the laws of the State, or Territory, or District, the bank may take, receive, reserve, or charge a rate not exceeding seven per centum, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run. And the purchase, discount, or sale of a bona fide bill of exchange, payable at another place than the place of such purchase, discount, or sale, at not more than the current rate of exchange for sight drafts in addition to the interest, shall not be considered as taking or receiving a greater rate of interest.

Sec. 5198.

CONSEQUENCES OF TAKING UNLAWFUL INTEREST. JURISDICTION OF SUITS BY OR AGAINST NATIONAL BANKS.

The taking, receiving, reserving, or charging a rate of interest greater than is allowed by the preceding section, when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. In case the greater rate of interest has been paid, the person by whom it has been paid, or his legal representative, may recover back, in an action in the nature of an action of debt, twice the amount of the interest thus paid from the association taking or receiving the same; provided such action is commenced within two years from the time the usurious transaction occurred. That suits, actions and proceedings against any association under this Title may be had in any circuit, district, or territorial court of the United States held within the district in which such association may be established, or in any State, county, or municipal court in the country or city in which said association is located, having jurisdiction in similar cases.

Sec. 5200.

LIMITATION OF LIABILITIES WHICH MAY BE INCURRED BY ANY ONE PERSON, COMPANY, ETC.

The total liabilities to any association, of any person, or of any company, corporation or firm for money borrowed, including in the

liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one-tenth part of the amount of the capital stock of such associations, actually paid in and unimpaired and one-tenth part of its unimpaired surplus fund: Provided, however, That the total of such liabilities shall in no event exceed thirty per centum of the capital stock of the association. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed.

Sec. 5201.

ASSOCIATIONS MUST NOT LOAN ON OR PURCHASE THEIR OWN STOCK

No association shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months from the time of its purchase, be sold or disposed of at public or private sale; or, in default thereof, a receiver may be appointed to close up the business of the association, according to Section fifty-two hundred and thirty-four.

Sec. 5208.

PENALTY FOR FALSELY CERTIFYING CHECKS.

It shall be unlawful for any officer, clerk or agent of any national banking association to certify any check drawn upon the association unless the person or company drawing the check has on deposit with the association, at the time such check is certified, an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against the association; but the act of any officer, clerk, or agent of any association, in violation of this section, shall subject such bank to the liability and proceedings on the part of the Comptroller as provided for in section fifty-two hundred and thirty-four.

PUNISHMENT FOR FALSELY CERTIFYING CHECKS, ETC.

That any officer, clerk, or agent of any national banking association, who shall willfully violate the provisions of an act entitled "An act in reference to certifying checks by national banks," approved March third, eighteen hundred and sixty-nine, being section fifty-two hundred and eight of the Revised Statutes of the United States, or who shall resort to any device, or receive any fictitious obligation, direct or collateral, in order to evade the provisions thereof, or who shall certify checks before the amount thereof shall have been regularly entered to the credit of the dealer upon the books of the banking association, shall be deemed guilty of a misdemeanor, and shall, on conviction thereof in any circuit or district court of the United

States, be fined not more than five thousand dollars, or shall be imprisoned not more than five years, or both, in the discretion of the court.

Sec. 5209.

PENALTY FOR EMBEZZLEMENT.

Every president, director, cashier, teller, clerk, or agent of any association, who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of the association; or who, without authority from the directors, issues or puts in circulation any of the notes of the association; or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report, or statement of the association, with intent, in either case, to injure or defraud the association or any other company, body politic or corporate, or any individual person, or to deceive any officer of the association, or any agent appointed to examine the affairs of any such association; and every person who with like intent aids or abets any officer, clerk, or agent in any violation of this section, shall be deemed guilty of a misdemeanor, and shall be imprisoned not less than five years nor more than ten.

NATIONAL BANKS NOT PERMITTED TO MAKE CONTRIBUTIONS IN CONNECTION WITH ELECTION TO POLITICAL OFFICE.

That it shall be unlawful for any national bank, or any corporation organized by authority of any laws of Congress, to make a money contribution in connection with any election to any political office. It shall also be unlawful for any corporation whatever to make a money contribution in connection with any election at which Presidential and Vice-Presidential electors or a Representative in Congress is to be voted for, or any election by any State legislature of a United States Senator. Every corporation which shall make any contribution in violation of the foregoing provisions shall be subject to a fine not exceeding five thousand dollars, and every officer or director of any corporation who shall consent to any contribution by the corporation in violation of the foregoing provisions shall upon conviction be punished by a fine of not exceeding one thousand and not less than two hundred and fifty dollars, or by imprisonment for a term of not more than one year, or both such fine and imprisonment in the discretion of the court.

Sec. 5211.

REPORTS TO COMPTROLLER OF THE CURRENCY.

Every association shall make to the Comptroller of the Currency not less than five reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation

of the president or cashier of such association, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the association at the close of business on any past day by him specified; and shall be transmitted to the Comptroller within five days after the receipt of a request or requisition therefor from him, and in the same form in which it is made to the Comptroller shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county at the expense of the association; and such proof of publication shall be furnished as may be required by the Comptroller. The Comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to a full and complete knowledge of its condition.

VERIFICATION OF REPORTS.

The oath or affirmation required by section fifty-two hundred and eleven of the Revised Statutes, verifying the returns made by national banks to the Comptroller of the Currency, when taken before a notary public properly authorized and commissioned by the State in which such notary resides and the bank is located, or any other officer having an official seal, authorized in such State to administer oaths, shall be a sufficient verification as contemplated by said section fifty-two hundred and eleven: *Provided*, That the officer administering the oath is not an officer of the bank.

Sec. 5212.

REPORT AS TO DIVIDENDS.

In addition to the reports required by the preceding section, each association shall report to the Comptroller of the Currency, within ten days after declaring any dividend, the amount of such dividend, and the amount of net earnings in excess of such dividend. Such reports shall be attested by the oath of the president or cashier of the association.

Sec. 5213.

PENALTY FOR FAILURE TO MAKE REPORTS.

Every association which fails to make and transmit any report required under either of the two preceding sections shall be subject to a penalty of one hundred dollars for each day after the periods, respectively, therein mentioned, that it delays to make and transmit its report. Whenever any association delays or refuses to pay the penalty herein imposed after it has been assessed by the Comptroller of the Currency, the amount thereof may be retained by the Treasurer of the United States, upon the order of the Comptroller of the Currency, out of the interest, as it may become due to the association, on the bonds deposited with him to secure circulation. All sums of money collected for penalties under this section shall be paid into the Treasury of the United States.

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